

# MIDAC HOLDINGS CO., LTD.

**6564**

Tokyo Stock Exchange Prime Market

30-Jan.-2024

FISCO Ltd. Analyst

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

## ■ Index

<b>■ Summary</b>	<b>01</b>
1. Characteristics and strengths of integrated treatment system of collection/transportation, intermediate treatment, and final disposal, and an extremely profitable earnings structure.....	01
2. 1H FY3/24 reversed initial forecast of decreased profit and increased profit .....	01
3. Forecast for increased profits in FY3/24 remains unchanged, with a possibility of an upside.....	02
4. Long-term vision “Challenge 80th” and first medium-term plan.....	02
5. Highly profitable earnings structure is commendable, and progress in growth strategies from a medium- to long-term perspective is also a focus of attention.....	02
<b>■ Company profile</b>	<b>03</b>
1. Company profile.....	03
2. History .....	04
<b>■ Business overview</b>	<b>06</b>
1. Business overview .....	06
2. Features and strengths .....	08
3. Trends by segment.....	09
4. Risk factors, earnings characteristics, and issues and measures in response to them .....	10
<b>■ Results trends</b>	<b>11</b>
1. Summary of consolidated financial results for 1H FY3/24.....	11
2. Trends by business segments.....	12
3. Financial condition.....	13
<b>■ Outlook</b>	<b>14</b>
● Summary of the FY3/24 full-year consolidated results forecasts .....	14
<b>■ Growth strategy</b>	<b>15</b>
1. Long-term vision “Challenge 80th” and foundation-building stage of the first medium-term plan .....	15
2. Shareholder return policy.....	17
3. Sustainability management.....	18
4. Analyst viewpoint.....	20

## Summary

### Corporate group seeking to establish a recycling-based society though appropriate waste treatment

MIDAC HOLDINGS CO., LTD.<6564> (also “the Company”) is a pure holding company of a corporate group seeking to establish a recycling-based society through appropriate waste treatment. The name MIDAC derives from the words for water, land, and air in Japanese, all of which symbolize the environment. With a mission of passing down this irreplaceable Earth as beautiful as it was before, it develops solutions related to waste treatment and management for waste dischargers, seeking to be an environment-creation group on the frontlines of these endeavors. It celebrated its 70th anniversary in April 2022.

#### 1. Characteristics and strengths of integrated treatment system of collection/transportation, intermediate treatment, and final disposal, and an extremely profitable earnings structure

The Company’s business segments are the waste treatment business, collection and transportation business, and intermediary management business. It collects, transports and disposes of industrial waste and specially controlled industrial waste and also collects, transports and disposes of general waste. The waste disposal business provides waste treatment services that consist of intermediate treatment (incineration, pulverization, water treatment, and concrete hardening) and final disposal of waste given off by dischargers (companies, municipalities, etc.). The collection and transportation business provides services involving the collection of waste given off by dischargers and its transport to treatment facilities by tanker trucks and packer trucks. The intermediary management business is a service that refers customers (waste dischargers) to other processing companies for waste that is difficult for the company to process or falls outside the Company’s scope of business. The waste treatment business, which is highly profitable, accounts for around 90%. The Company’s characteristic and strength is having built an integrated treatment system that undertakes everything from collection and transport, to intermediate processing, to final disposal, something made possible by the Group owning a diverse array of equipment, whereas most companies in the same sector only offer collection and transport or only offer intermediate processing. Its operating profit margin on a consolidated basis has risen 12.0 percentage points (pt) from 23.5% in FY3/19 to 35.5% in FY3/23, so the Company has an extremely profitable earnings structure.

#### 2. 1H FY3/24 reversed initial forecast of decreased profit and increased profit

Consolidated financial results for 1H FY3/24 was net sales of ¥4,194mn, up 10.9% year on year (YoY), operating profit of ¥1,355mn, up 7.9%, ordinary profit of ¥1,322mn, up 8.0%, and profit attributable to owners of parent of ¥753mn, up 2.9%. Results reversed the initial forecast of decreased profit and profits increased. With expansion to the Okuyama-No-Mori Clean Center, a controlled landfill site in the waste treatment business, final disposal performed well. Gross profit increased by 14.2% YoY and the gross margin went up 1.8 points to 59.9%. Along with growth in final disposal, which is highly profitable, rising treatment costs associated with spikes in raw materials were met with price adjustments, which also contributed. SG&A expenses increased by 22.6% on an increase in general and administrative expenses and the SG&A expense ratio rose 2.7pt to 27.6%. As a result, the operating profit margin declined by 0.9pt to 32.3%, but continued a high rate of profitability of over 30%. Analyzing the ¥98mn change in operating profit, water treatment declined by ¥28mn and incineration treatment declined ¥68mn, while final disposal increased ¥362mn, other waste treatment increased by ¥43mn, collection and transportation rose by ¥14mn, and intermediary management increased by ¥5mn.

## Summary

**3. Forecast for increased profits in FY3/24 remains unchanged, with a possibility of an upside**

The forecast for consolidated financial results for FY3/24 is unchanged from the initial forecast, with net sales of ¥8,454mn, up 8.8% YoY, operating profit of ¥3,013mn, up 9.4%, ordinary profit of ¥2,875mn, up 6.8%, and profit attributable to owners of parent of ¥1,731mn, up 2.7%. Net sales is expected to increase as contracted volume increases, primarily for final disposal, as a result of increasing the volume accepted at Okayama-No-Mori Clean Center, a controlled landfill site. Profit is also expected to increase as the increase in SG&A expenses is offset by the sales increase and higher capacity utilization at intermediate treatment facilities. The 1H progress rates against full-year forecasts were for 49.6% for net sales, 45.0% for operating profit, 46.0% for ordinary profit, and 43.5% for profit attributable to owners of parent. Net sales and profit tend to decline in 1H due to seasonal factors, but considering forecasts are initially weighted to 2H (1H net sales of ¥4,044mn, 2H net sales of ¥4,410mn, 1H operating profit of ¥1,212mn, 2H operating profit of ¥1,801mn), it could be said that results are at a solid level. Moreover, 1H beat expectations and finished with a sudden turnaround in profits. In 2H, two new companies added to the Group (details below) are making a contribution, and considering that Group synergies can be expected to increase, we at FISCO believe results are highly likely to beat full-year forecasts.

**4. Long-term vision “Challenge 80th” and first medium-term plan**

The Company celebrated its 70th anniversary in April 2022 and marked the occasion by establishing a 10-year vision, Challenge 80th, for the MIDAC Group in June 2022 to give concrete form to what the Company aspires to be on its 80th anniversary in 10 years. To fulfill Challenge 80th, the Company created the first of two medium-term plans, each of which will last five years. As a basic strategy, the Company will aim to become a true leader in the industry by promoting its evolution into one of the industry's leading comprehensive industrial waste processing companies. To accomplish this the first medium-term plan (FY3/23 to FY3/27) is the stage of building a foundation to accelerate growth, while the second medium-term plan (FY3/28 to FY3/32) is positioned as the stage to establish an industry-leading position through accelerating growth. Numerical results targets are ¥10.0bn in net sales and ¥5.0bn in ordinary profit (organic growth excluding M&A) in FY3/27, the final year of the first medium-term plan. For FY3/32, the final year of Challenge 80th, the Company is targeting net sales of ¥40.0bn and ordinary profit of ¥12.0bn. Leveraging its advantage of having multiple treatment facilities and licenses, the Company aims to expand in scale by active expansion in the Kanto area, a large market, while maintaining a high profit margin. The development of new facilities will not be limited to in-house development; M&A will also be actively utilized.

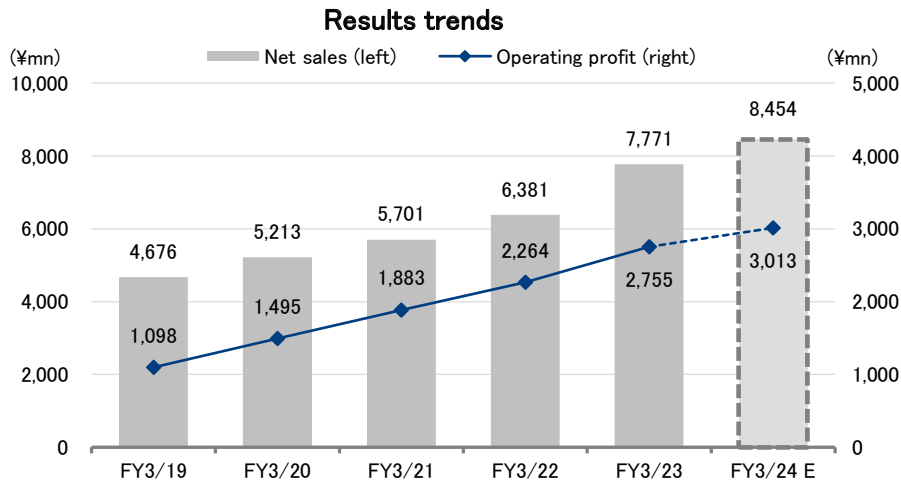
**5. Highly profitable earnings structure is commendable, and progress in growth strategies from a medium- to long-term perspective is also a focus of attention**

Looking at the Company's trends in net sales and profits for the past five years, it is a growth trend with an upward trajectory. The profit margin has been rising significantly as well, so the Company is superbly both growing in size and increasing its profit margin. The sector, waste treatment, has a somewhat bland reputation, but we at FISCO believe the Company should be highly commended for its business strategy and earnings structure that maintains earnings growth with a high profit margin. In addition, establishing a new landfill site takes a considerable amount of time, but the Company has created a business plan with a medium- to long-term viewpoint and is steadily executing its business strategy while utilizing M&A as well, and should be commended on this point. Going forward, the focus will be on the progress of this first medium-term plan, which is positioned as the stage for creating a foundation for growth acceleration, including active M&A and capital investment.

Summary

**Key Points**

- Pure holding company for a corporate group that seeks to establish a recycling-based society through appropriate waste treatment
- Characteristics and strengths of integrated treatment system of collection/transportation, intermediate treatment, and final disposal, and an extremely profitable earnings structure
- 1H FY3/24 reversed initial forecast of decreased profit and profits increased
- Full-year forecast for increased profits in FY3/24 remains unchanged, with a possibility of an upside
- Seeking to expand scale while maintaining a high profit margin by actively expanding in the large Kanto area utilizing M&A
- Highly profitable earnings structure is commendable, and progress in growth strategies from a medium- to long-term perspective is also a focus of attention



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

## Company profile

**The MIDAC name comes from the Japanese words for water, land, and air, symbolizing the environment**

### 1. Company profile

The Company is a pure holding company of a corporate group seeking to establish a recycling-based society through appropriate processing of waste. The name MIDAC comes from the Japanese words for water, land and air, symbolizing the environment. With a mission of passing down this irreplaceable Earth as beautiful as it was before, it develops solutions related to waste treatment and management by dischargers, seeking to be an environment-creation group on the frontlines of these endeavors. It celebrated its 70th anniversary in April 2022.

Company profile

As of the end of 1H FY3/24, the Group consisted of the Company (a pure holding company headquartered in Hamamatsu City, Shizuoka Prefecture), consolidated subsidiaries MIDAC CO., LTD. (headquartered in Hamamatsu City, Shizuoka Prefecture), MIDAC LINER CO., LTD. (headquartered in Hamamatsu City, Shizuoka Prefecture), SANKO CO., LTD. (headquartered in Kasugai City, Aichi Prefecture), MIDAC KONAN CO., LTD. (headquartered in Hamamatsu City, Shizuoka Prefecture), ENSHU CRUSHED STONE CO., LTD. (headquartered in Hamamatsu City, Shizuoka Prefecture), FRIEND SANITARY CO., LTD. (headquartered in Tsu City, Mie Prefecture), non-consolidated subsidiaries LOVE THY NEIGHBOR CO., LTD. (headquartered in Setagaya City, Tokyo), IWAHARA ORCHARDS CO., LTD. (headquartered in Hokuto City, Yamanashi Prefecture) and equity-method affiliate GREEN CIRCULAR FACTORY CO., LTD (headquartered in Takasaki City, Gunma Prefecture; a joint venture with YAMADA HOLDINGS CO., LTD.<9831>; the Company's share is 40%). The Company has total assets on a consolidated basis of ¥25,322mn, net assets of ¥11,622mn, share capital of ¥90mn, an equity ratio of 45.8%, shares outstanding of 27,773,500 shares (including 115,116 treasury shares), and 395 employees (including temporary workers).

**2. History**

The forerunner to MIDAC HOLDINGS, KOJIMA SEISOSHA was founded to conduct general waste handling operations in Hamamatsu City, Shizuoka Prefecture in April 1952. In 1964, the company was incorporated as KOJIMA SEISO CO., LTD. to increase its credibility in society and thereafter expanded its business by collecting, transporting and disposing of industrial waste. In July 1996, the Company changed its name to MIDAC CO., LTD. In September 2021, its name changed to MIDAC HOLDINGS, and in April 2022, the Company shifted to a holding company structure. To expand business, the Company actively uses M&A, and in recent years it made ENSHU CRUSHED STONE CO., LTD. a wholly owned subsidiary in July 2023 and made FRIEND SANITARY CO., LTD. a wholly owned subsidiary in September 2023.

Regarding the Company's stock, it listed on the Second Section of Nagoya Stock Exchange (NSE) in December 2017 and listed on the Second Section of the Tokyo Stock Exchange (TSE) in December 2018. It then listed on the TSE First Section and NSE First Section in December 2019. In April 2022, in connection with market restructuring, it listed on the TSE Prime Market and NSE Premier Market.

**History**

Date	Event
April 1952	KOJIMA SEISOSHA was founded in Hamamatsu City and was authorized the same month by Hamamatsu City to conduct general waste handling operations
April 1960	Licensed to conduct general waste collection, transportation and disposal by Kamimura in Hamamatsu County, Shizuoka Prefecture (now Hamamatsu City)
July 1964	Incorporated as KOJIMA SEISO CO., LTD. to increase its credibility in society
September 1972	Obtained license in Shizuoka Prefecture to conduct collection, transport and final disposal
May 1986	Established new liquid waste processing center in Hamamatsu City
April 1988	Obtained licenses from Hamamatsu City to perform industrial waste disposal and specially controlled industrial waste disposal, and built a new managed final disposal site in the city
October 1992	Added new active sludge treatment facility at the head office plant
October 1993	Built new carbonization facilities primarily for processing infectious waste
July 1996	Changed name to MIDAC CO., LTD. (currently MIDAC HOLDINGS)
May 1997	Opened Fujinomiya Business Office (intermediate processing facility) in Fujinomiya City, Shizuoka Prefecture
January 1998	Established wholly owned subsidiary MIDAC ANALYSIS CENTER CO., LTD. in Hamamatsu City
April 1998	Opened Fukude Business Office (incinerating facility) in Fukude Town, Iwata District, Shizuoka Prefecture (now Iwata City)
March 2000	Established MIDAC FUJINOMIYA CO., LTD. in Fujinomiya City, Shizuoka Prefecture (50% joint venture in September 2001)
December 2001	Head office acquires ISO 14001 certification Opened the Toyohashi Business Office (sludge treatment facility) in Toyohashi City, Aichi Prefecture
April 2002	Opened the Tokyo Sales Office in Setagaya City, Tokyo
December 2002	MIDAC FUJINOMIYA opens facility for processing municipal waste and industrial waste
August 2003	Established NIES CO., LTD, a wholly owned subsidiary, in Toyohashi City, Aichi Prefecture for intermediate processing of industrial waste (sorting, kneading, crushing, sorting)

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## Company profile

Date	Event
October 2003	Operations of Toyohashi Business Office transferred to NIES
November 2003	Established SOSEKI CO., LTD. a new wholly owned subsidiary in Toyohashi City, Aichi Prefecture for recycling of industrial waste (manufacture of roadbed material)
April 2004	Established MIDAC LINER CO., LTD., a wholly owned subsidiary in Hamamatsu City
June 2004	Municipal waste collection and transportation business transferred to MIDAC LINER
July 2004	MIDAC HOLDINGS CO., LTD. established as a pure holding company in Hamamatsu City and switched to holding company structure
October 2004	MIDAC HOLDINGS CO., LTD. established as a pure holding company in Hamamatsu City and switched to holding company structure MIDAC HOLDINGS established I CLEAN KARIYA CO., LTD. in Nagoya City (75% share)
January 2005	Tokyo Sales Office relocated to Kawasaki City
April 2005	MIDAC HOLDINGS establishes SUN MIDAC, CO., LTD., a wholly owned subsidiary in Hamamatsu City and transfers the agriculture business
July 2005	Established the Nagoya Sales Office in Nagoya City
March 2006	MIDAC merges NIES, SOSEKI, I CLEAN KARIYA, and MIDAC ANALYSIS CENTER MIDAC LINER merges with SUN MIDAC
April 2010	MIDAC merges with MIDIC HOLDINGS and MIDAC LINER
April 2011	MIDAC makes MIDAC FUJINOMIYA a wholly owned subsidiary
March 2012	MIDAC merges with MIDAC FUJINOMIYA
January 2013	Seki Business Office established in Seki City, Gifu Prefecture
March 2015	Made SANKO CO., LTD. a wholly owned subsidiary
December 2015	Made SANSEI KAIHATSU CO., LTD. a wholly owned subsidiary (now MIDAC)
December 2017	Listed on the Second Section of the Nagoya Stock Exchange (NSE)
December 2018	Acquired license for establishing industrial waste processing facility as a newly managed final disposal site Listed on the Second Section of the Tokyo Stock Exchange (TSE)
December 2019	Listed on First Section of TSE and First Section of NSE
September 2021	MIDAC changes name to MIDAC HOLDINGS, and MIDAC HAMANA CO., LTD. changes its name to MIDAC
October 2021	The final disposal business (Okuyama-No-Mori Clean Center) split off from MIDAC via a company split YANAGI INDUSTRY CO., LTD. made a wholly owned subsidiary (name changed to MIDAC KONAN CO., LTD. in April 2023)
February 2022	Okayama-No-Mori Clean Center, a new managed final disposal site, begins operations
April 2022	Changed to holding company structure (existing businesses split off into consolidated subsidiaries via company split method) Changed listings to Tokyo Stock Exchange Prime Market and Nagoya Stock Exchange Premier Market as part of market reclassification
May 2022	Made LOVE THY NEIGHBOR CO., LTD. a wholly owned subsidiary (non-consolidated)
November 2022	Made IWAHARA ORCHARDS CO., LTD. a wholly owned subsidiary (non-consolidated)
July 2023	Made ENSHU CRUSHED STONE CO., LTD. a wholly owned subsidiary
September 2023	Established GREEN CIRCULAR FACTORY CO., LTD (equity-method affiliate), a joint venture with YAMADA HOLDINGS <9831> Made FRIEND SANITARY CO., LTD. a wholly owned subsidiary

Source: Prepared by FISCO from the Company's materials

## Business overview

### Carries out the waste treatment business, collection and transportation business, and intermediary management business

#### 1. Business overview

The Company carries out the collection, transport and treatment of industrial waste and specially controlled industrial waste and the collection, transport and treatment of general waste. Waste is defined as an item no longer needed because it can't be used by its owner or sold for a fee to another party (excludes radioactive substances and items exposed to such substances). It is largely divided between industrial waste and general waste.

Industrial waste is 20 categories of waste defined under the Waste Management and Public Cleansing Act among the waste given off by business activities (cinder, sludge, waste oil, waste alkali, waste plastics, scrap rubber, scrap metal, scrap glass, scrap concrete, scrap ceramics, slag, rubble, soot and dust, scrap paper, scrap lumber, scrap textiles, animal and plant residue, animal-based solid waste, animal waste, animal carcasses, and items not included in the aforementioned that are processed in order to dispose of the above industrial waste).

Specially controlled industrial waste is industrial waste with explosivity, toxicity, or infectiousness. Municipal waste is waste other than industrial waste specified in the Waste Management Act. Municipal waste is divided into regular business waste (non-industrial waste given off by business activities), regular household waste (waste given off by the everyday living activities of regular households), specially controlled general waste (parts that use PCB included in household waste, soot and dust gathered at dust collection facilities at waste processing facilities, and infectious waste).

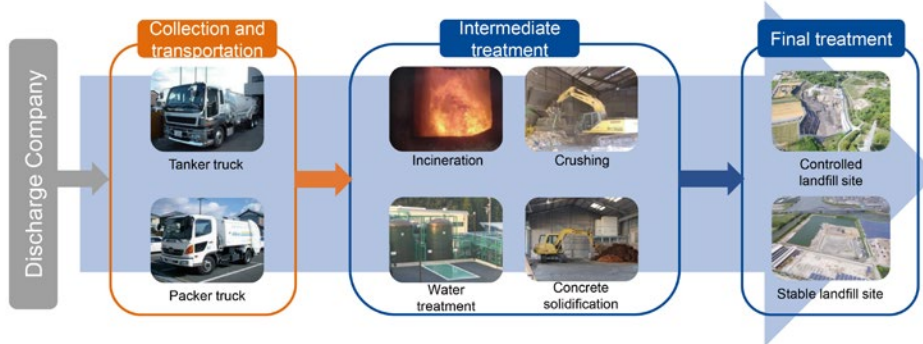
#### (a) Business segments / Description

The Company's business segments are the waste treatment business, the collection and transportation business, and the intermediary management business. The waste treatment business consists of waste treatment services for intermediate treatment (incineration, pulverization, water treatment, concrete solidification, etc.) and final disposal at its own facilities for waste discharged by providers (companies, local municipalities, etc.). The collection and transportation business consists of services for transporting waste given off by dischargers to treatment sites by way of tanker trucks and packer trucks. The intermediary management business consists of services for intermediating for customers (dischargers) to refer them to other treatment providers for waste that is difficult for the Company to treat and waste outside its scope of business. In the waste treatment business and collection and transportation business, fees are charged to the discharger for intermediate processing, final disposal and collection and transportation. In the intermediary management business, referral fees are collected from the treatment provider.



Business overview

Waste treatment process



Source: The Company's results briefing materials

Intermediate processing consists of reducing the amount, reducing the volume, stabilizing, detoxification, and recycling of waste before final processing. Depending on the properties of the waste, it is treated by incineration, pulverization and sorting, reducing and forming, neutralizing, dehydrating, or melting. Final disposal consists of landfilling, ocean disposal, or recycling. Landfilling involves building a storage structure by separating off a place limited by land or sea in order to avoid unauthorized spreading or discharge of waste into the environment, filling it with waste and storing it there until after a number of years it returns to nature. There are three types of sites. Stable landfill sites (landfill disposal sites filled only with items that do not hinder environmental safety even if landfilled in its original state like waste plastics or rubble), shielded landfill sites (landfill disposal sites that are filled with waste that include toxic substances and are isolated from its surroundings with a concrete enclosure and roof), and controlled landfill sites (landfill disposal sites that are filled with waste that is not toxic enough to meet the threshold for shielded landfill sites but cannot be treated at a stable landfill site; facilities are mandated for seepage control and leachate treatment because the hazardous substances give off eluate, gas or sewage).

**(b) Business environment**

The estimated market scope of the domestic industrial waste processing industry, to which the Company belongs, is approximately ¥5.3tn (Source: Ministry of the Environment, "FY2011 Report on the Fact-Finding Survey of Industrial Waste Treatment Business"). By region, Kanto is ¥2.1tn, Kinki is ¥0.9tn, Chubu is ¥0.7tn, Hokkaido and Tohoku are ¥0.6tn, Kyushu and Okinawa are ¥0.6tn and Chugoku and Shikoku are ¥0.4tn. Total output of industrial waste in Japan (Source: Ministry of the Environment, "Industrial Waste Discharge and Treatment Status (Preliminary Figures for FY2021)") was 371mn tons in fiscal 2021 (by region, Kanto 25.9%, Hokkaido and Tohoku 19.8%, Chubu 16.0%, Kyushu 14.3%, Kinki 13.3%, and Chugoku and Shikoku 10.8%.) After exceeding 400mn tons in fiscal 2009, there has been no major change and this stable amount of discharge is expected to continue going forward.

Final disposal volume (Source: Ministry of the Environment, "Industrial Waste Discharge and Treatment Status (Preliminary Figures for FY2021)") has trended at around 9mn tons since 2018. This is a large decline compared to fiscal 2008's 17mn tons, but progress made by recycling (the 3 R's: Reduce, Reuse, Recycle) is thought to have had an impact, but under the Ministry of the Environment's "Fundamental Plan for Establishing a Sound Material-Cycle Society (June 2018)," a target has been set of 10mn tons for the final disposal volume of industrial waste in fiscal 2025, and going forward, final disposal will be unavoidable, and landfill sites will continue to be essential to society; this is not likely to change.

#### Business overview

In addition, landfill sites in Japan (number of licensed facilities) numbered 1,568 nationwide as of April 1, 2022 (Source: Ministry of the Environment, "Status of the Installation of Industrial Waste Treatment Facilities and Permitting for Industrial Waste Treatment Businesses, etc. (FY2021 Results, etc.)") The remaining volume of 171.09mn m<sup>3</sup> (shielded landfill sites 0.2mn m<sup>3</sup>, stable landfill sites 59.23mn m<sup>3</sup>, and controlled landfill sites 111.83mn m<sup>3</sup>) increased YoY by 14.02mn m<sup>3</sup>, or 8.9%. Remaining years (=remaining volume/final disposal volume) in Japan is 19.7 years; it is 13.4 years in the Tokyo metropolitan area, and 20.5 years in the Kinki area.

## Characteristics and strengths of integrated treatment system of collection/transportation, intermediate treatment, and final disposal, and an extremely profitable earnings structure

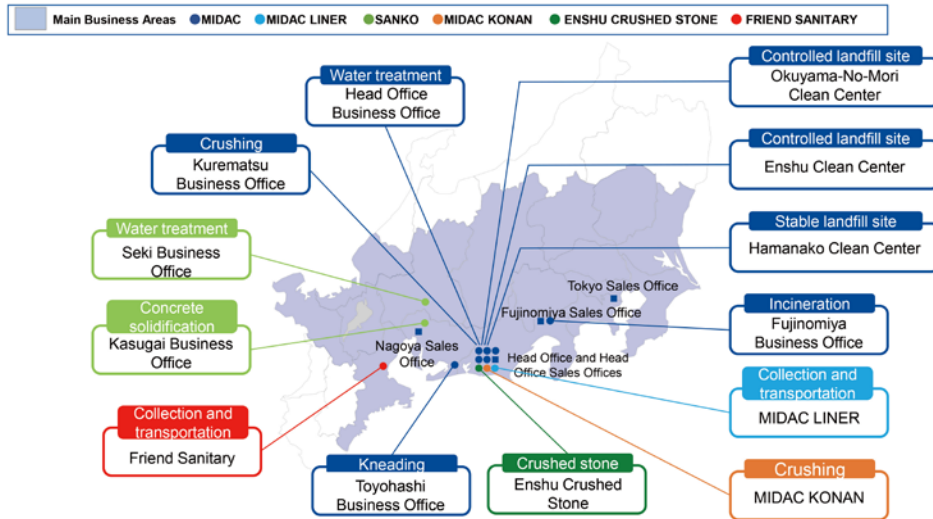
### 2. Features and strengths

As a characteristic and strength of the Company, it has built an integrated treatment system that undertakes processes from collection and transportation to intermediate treatment, and final disposal made possible by the Group owning a variety of facilities, whereas most companies in the same industry are either collection and transportation only or intermediate treatment only. Dischargers, which are the Company's customer, can contract waste processing to the Company with full confidence and with no concerns about inappropriate treatment, etc., in the process of waste treatment. Moreover, integrated treatment within the Group creates Group synergies like lower costs at intermediate treatment facilities.

The Group's business sites and facilities are as follows. MIDAC's Head Office Business Office conducts intermediate treatment and collection and transportation of sludge and waste liquids, the Kurematsu Business Office conducts intermediate treatment by pulverizing solid waste, the Toyohashi Business Office offers pulverizing and sorting of waste products and sorting and kneading of sludge, the Fujinomiya Business Office incinerates various types of waste, the Enshu Clean Center (Hamamatsu City, Shizuoka Prefecture) provides controlled landfill sites, the Hamanako Clean Center (Hamamatsu City, Shizuoka Prefecture) is a stable landfill site, and Okuyama-No-Mori Clean Center (Hamamatsu City, Shizuoka Prefecture) is a controlled landfill site. SANKO handles concrete solidification of sludge, etc., an intermediate treatment, and the Seki Business Office does intermediate treatment for sludge and waste fluids, MIDAC KONAN crushes and sorts solid waste, ENSHU CRUSHED STONE crushes stone, MIDAC LINER handles collection and transportation, and FRIEND SANITARY also carries out collection and transportation. Regarding Okuyama-No-Mori Clean Center, it was licensed and began operations in February 2022, and now the second to fourth phases of construction are underway. The second to fourth phases are scheduled to launch operations in September 2026. Having its base of operations in Hamamatsu City, Shizuoka Prefecture nearly in the middle of the so-called Pacific Belt where waste discharge is substantial means its service area extends from east to west from the Kanto area to the Kansai area, which is another characteristic and strength.

Business overview

List of business units



Source: The Company's results briefing materials

## Net sales and operating income from the waste treatment business increasing. Operating margin also on the upswing

### 3. Trends by segment

Segment sales, operating profit and operating profit margins for the past five years (FY3/19 to FY3/23) and 1H FY3/24 results are as shown below. Looking by share, the waste treatment business, which has high profit margins, accounts for around 90% of the total. The mainstay waste treatment business has seen steady increases in net sales and operating profit. In addition, the operating profit margin is on the upswing, rising 14.3pt from 35.5% in FY3/19 to 49.8% in FY3/23. Along with increased revenue from business expansion, the higher sales shares of incineration (intermediate treatment) and final disposal, which have high profit margins in particular, also contributed. As a result, the operating profit margin on a consolidated basis rose 12.0pt from 23.5% in FY3/19 to 35.5% in FY3/23, so the Company has an earnings structure with an extremely profitable profit earnings structure.

## Business overview

## Trends by segment

	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23	1H FY3/24
	(¥mn)					
Consolidated net sales	4,676	5,213	5,701	6,381	7,771	4,194
Waste treatment business	4,029	4,546	4,975	5,724	7,202	3,938
Collection and transportation business	698	714	756	701	719	378
Intermediary management business	275	323	381	422	137	65
Total	5,003	5,584	6,113	6,848	8,059	4,381
Adjustments	-327	-370	-412	-467	-287	-186
Consolidated operating profit	1,098	1,495	1,883	2,264	2,755	1,355
Waste treatment business	1,432	1,916	2,162	2,715	3,586	1,961
Collection and transportation business	110	92	163	115	96	48
Intermediary management business	88	130	178	173	79	39
Total	1,631	2,138	2,504	3,004	3,762	2,048
Adjustments	-533	-643	-620	-739	-1,006	-693
Consolidated operating profit margin	23.5%	28.7%	33.0%	35.5%	35.5%	32.3%
Waste treatment business	35.5%	42.1%	43.5%	47.4%	49.8%	49.8%
Collection and transportation business	15.8%	12.9%	21.7%	16.5%	13.4%	12.9%
Intermediary management business	32.1%	40.3%	46.6%	40.9%	57.8%	59.8%

Note: Operating profit margin for each segment is before consolidation adjustments.  
 Source: Prepared by FISCO from the Company's materials

## Strengthen governance against regulatory risk; low risk from market competition

### 4. Risk factors, earnings characteristics, and issues and measures in response to them

Risk factors include legal regulations, development of landfill sites, change in waste discharge due to changing economic conditions, and intensified market competition. Regarding regulations, there is the Waste Management and Public Cleansing Act and other related regulations, but the Company is working to maintain compliance by strengthening overall Group governance so that it does not receive an order to suspend operations or other punishment such as a license being revoked.

Regarding final disposal, when the prescribed volume of landfill fills up the site, operations come to an end, but to develop a new landfill site, it takes a process of prior discussions with the municipality, land selection and acquisition, an environmental assessment survey, presentations to local residents and more before the municipality grants the license and construction can begin. It takes a considerable amount of time, so new final disposal development plans are promoted in line with medium- to long-term business plans. There has been no major change in waste discharge in recent years, and going forward a fixed amount of waste continues to be expected.

With regard to market competition, the Group has built an integrated treatment system and maintains a competitive advantage. FISCO believes there is low risk its financial results deteriorate due to competition intensifying.

## Results trends

### 21H FY3/24 reversed initial forecast of decreased profit and profits increased

#### 1. Summary of consolidated financial results for 1H FY3/24

Consolidated financial results for 1H FY3/24 was net sales of ¥4,194mn, up 10.9% YoY, operating profit of ¥1,355mn, up 7.9% YoY, ordinary profit of ¥1,322mn, up 8.0%, and profit attributable to owners of parent of ¥753mn, up 2.9%. It exceeded its initial forecasts (net sales of ¥4,044mn, operating profit of ¥1,212mn, ordinary profit of ¥1,173mn and profit attributable to owners of parent of ¥660mn). Profit initially was forecast to decline, but this was reversed and profit increased. Results were led by the strong performance from final disposal in the waste treatment business. ENSHU CRUSHED STONE, made a subsidiary in July 2023, and FRIEND SANTIARY made a subsidiary in September 2023 have an effective acquisition date of September 30, 2023, so regarding 1H results, they are only consolidated on the balance sheet.

Summary of consolidated financial results for 1H FY3/24

	1H FY3/23		1H FY3/24		YoY		Initial plan	vs initial plan		1H progress rate
	Results	% of net sales	Results	% of net sales	Change	Change (%)		Amount		
Net sales	3,783	100.0%	4,194	100.0%	411	10.9%	4,044	150	49.6%	
Gross profit	2,199	58.1%	2,511	59.9%	312	14.2%	-	-	50.0%	
SG&A expenses	943	24.9%	1,156	27.6%	213	22.6%	-	-	57.6%	
Operating profit	1,256	33.2%	1,355	32.3%	98	7.9%	1,212	143	45.0%	
Ordinary profit	1,224	32.4%	1,322	31.5%	98	8.0%	1,173	149	46.0%	
Profit attributable to owners of parent	732	19.4%	753	18.0%	21	2.9%	660	93	43.5%	

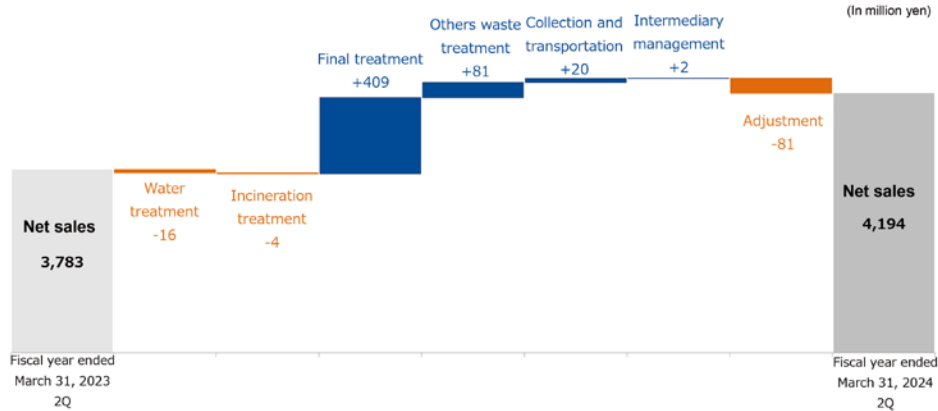
Note: Initial plan figures were announced on May 12, 2023.

Source: Prepared by FISCO from the Company's materials

Gross profit increased 14.2% YoY and the gross margin improved 1.8pt to 59.9%. Along with growth in final disposal, which is highly profitable, price adjustments to address rising treatment costs due to spikes in raw material prices also made a contribution. SG&A expenses increased 22.6% due in part to higher general and administrative expenses and the SG&A expense ratio went up 2.7pt to 27.6%. As a result, the operating profit margin fell by 0.9pt to 32.3%, but continued to be high at over 30%. Analyzing the ¥98mn change in operating profit, there was a ¥28mn decrease in water treatment, ¥68mn decrease in incineration treatment, a ¥362mn increase in final disposal, a ¥43mn increase in other waste treatment, a ¥14mn increase in collection and transportation, and a ¥5mn increase in intermediary management.

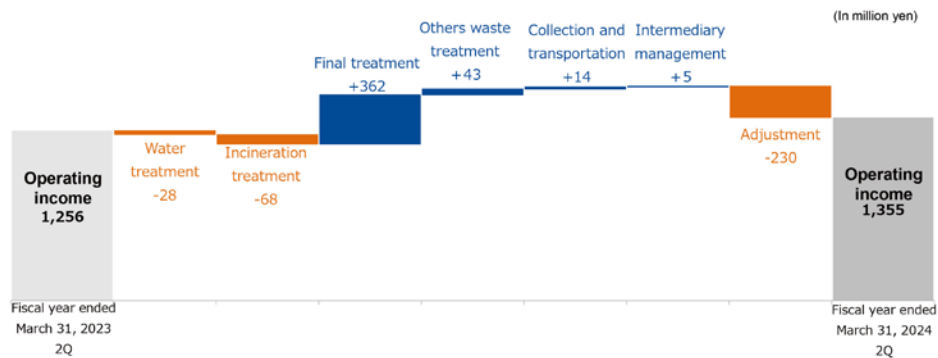
Results trends

Analysis of changes in net sales



Note 1: Figures for each category include internal transactions.  
 Note 2: Adjustments represent changes from eliminations of intragroup transactions.  
 Source: The Company's results briefing materials

Analysis of changes in operating income



Note 1: Figures for each category include internal transactions.  
 Note 2: Adjustments represent changes from eliminations of intragroup transactions and company wide expenses.  
 Source: The Company's results briefing materials

## Waste treatment business is steady

### 2. Trends by business segments

Looking by segment (net sales include internal net sales and transfers; operating profit is prior to adjustments and eliminations), the waste treatment business's net sales rose 13.5% to ¥3,938mn and operating profit increased 18.7% to ¥1,961mn. So there was steady double-digit growth in both sales and profit. The amount of waste accepted increased significantly, centering on large transactions with the construction industry, in relation to expanded volume accepted at Okuyama-No-Mori Clean Center, a controlled landfill site operated by MIDAC. The breakdown of the ¥469mn increase in sales in the waste treatment business is a decrease in water treatment of ¥16mn, a decrease in intermediate treatment of ¥4mn, an increase in final disposal of ¥409mn, and an increase in other waste treatment of ¥81mn. Collection and transportation saw net sales increase by 5.8% to ¥378mn and operating profit increase 42.7% to ¥48mn. In industrial waste, there was the negative factor for some transactions being switched to the intermediary management business, but acceptance of general waste increased, centering on restaurants, so both sales and profit were up overall. In the intermediary management business, net sales increased 3.6% to ¥65mn and operating profit rose 16.4% to ¥39mn. There was a stable trend of referring large-scale projects and others to partner companies.

## Results trends

## Overview of 1H FY3/24 results by segment

(¥mn)

	1H FY23		1H FY3/24		YoY	
	Results	% of net sales	Results	% of net sales	Change	Change (%)
<b>Consolidated net sales</b>						
Waste treatment business	3,468	89.2%	3,938	89.9%	469	13.5%
Collection and transportation business	357	9.2%	378	8.6%	20	5.8%
Intermediary management business	63	1.6%	65	1.5%	2	3.6%
<b>Total</b>	<b>3,888</b>	<b>100.0%</b>	<b>4,381</b>	<b>100.0%</b>	<b>492</b>	<b>12.7%</b>
Adjustments	-105	-	-186	-	-	-
<b>Consolidated operating profit</b>						
Waste treatment business	1,651	47.6%	1,961	49.8%	309	18.7%
Collection and transportation business	34	9.6%	48	12.9%	14	42.7%
Intermediary management business	33	53.2%	39	59.8%	5	16.4%
<b>Total</b>	<b>1,719</b>	<b>44.2%</b>	<b>2,048</b>	<b>46.8%</b>	<b>329</b>	<b>19.1%</b>
Adjustments	-463	-	-693	-	-	-

Note 1: Segment net sales are a percentage of total before adjustments

Note 2: Segment operating income margin is operating income as a percentage of the segment's net sales

Source: Prepared by FISCO from the Company's materials

## Maintaining financial soundness

### 3. Financial condition

Looking at financials (ENSHU CRUSHED STONE and FRIEND SANITARY are newly consolidated and included only on the balance sheet at the end of 1H), total assets at end-1H FY3/24 increased ¥3,715mn compared to the end of FY3/23 to ¥25,322mn. This was mainly due, in current assets, to an increase of ¥818mn in cash and deposits, and, in non-current assets, an increase of ¥1,088mn in land, increase of ¥420mn in goodwill, and an increase of ¥1,165mn in investments and other assets. Total liabilities increased ¥3,077mn to ¥13,700mn. Interest-bearing debt (total of short- and long-term borrowings and bonds) went up 2,666mn to ¥10,696mn. Short-term borrowings increased by ¥2,800mn to fund M&A. Total net assets increased ¥638mn to ¥11,622mn. Retained earnings increased ¥615mn. As a result, the equity ratio declined 4.9pt to 45.8%. Short-term borrowings increased to fund M&A and the equity ratio decreased, but in the Company's case building a platform for growth through M&A is seen as essential, and, furthermore, considering the abundance of cash and deposits from steady operating cash flow, for the time being there is no cause for concern, and we at FISCO believe that financial soundness is being maintained.

## Results trends

## Balance sheet and statements of cash flows (summarized version)

	End of FY3/19	End of FY3/20	End of FY3/21	End of FY3/22	End of FY3/23	End of 1H FY3/24	Change
(¥mn)							
Total assets	9,164	11,919	14,222	20,040	21,607	25,322	3,715
Current assets	2,671	4,683	5,327	7,129	7,833	8,712	878
Non-current assets	6,492	7,235	8,894	12,910	13,773	16,610	2,836
Total liabilities	6,911	7,537	8,699	10,503	10,623	13,700	3,077
Current liabilities	3,756	4,725	6,147	7,450	3,929	6,260	2,330
Non-current liabilities	3,155	2,811	2,551	3,053	6,693	7,440	746
Net assets	2,252	4,382	5,522	9,536	10,983	11,622	638
Shareholders' equity	2,252	4,382	5,520	9,529	10,965	11,598	632
(Share capital)	418	752	752	2,149	90	90	-
Equity ratio	24.6%	36.8%	38.8%	47.6%	50.7%	45.8%	-4.9pt

	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23	1H FY3/24
Cash flows from operating activities	1,317	1,651	1,773	1,807	2,849	903
Cash flows from investing activities	-1,782	-1,474	-2,063	-3,908	-2,243	-2,768
Cash flows from financing activities	362	1,778	827	3,700	39	2,507
Cash and cash equivalents at end of period	1,801	3,756	4,293	5,894	6,540	7,182

Source: Prepared by FISCO from the Company's materials

## Outlook

### Forecast for increased sales and profits in FY3/24 remains unchanged, with a possibility of an upside

#### ● Summary of the FY3/24 full-year consolidated results forecast

The forecast for consolidated financial results for FY3/24 is unchanged from the initial forecast, with net sales of ¥8,454mn, up 8.8% YoY, operating profit of ¥3,013mn, up 9.4%, ordinary profit of ¥2,875mn, up 6.8%, and profit attributable to owners of parent of ¥1,731mn, up 2.7%. In net sales, expanding the volume accepted at Okuyama-No-Mori Clean Center is leading to a steady increase in contracted volume, centering on final disposal, which is the reason for the increase in sales. On the profit side, the increase in SG&A expenses is being offset by increased sales and an increase in capacity utilization at intermediate treatment facilities, so increased profit is expected. Capital investment is expected to rise 3.4 times to ¥5,098mn as a result of acquiring land and making investments related to new waste treatment facilities. Depreciation plus amortization of goodwill is planned to increase 10.9% to ¥893mn.

1H progress rates against full-year forecasts were 49.6% for net sales, 45.0% for operating profit, 46.0% for ordinary profit, and 43.5% for profit attributable to owners of parent. For seasonal factors, both sales and profit tend to decline in 1H, but considering that from the initial stage forecasts were weighted to 2H (1H net sales of ¥4,044mn, 2H net sales of ¥4,410; 1H operating profit of ¥1,212mn, 2H operating profit of ¥1,801mn), both are at adequate levels. Furthermore, 1H is ahead of plans with profit unexpectedly increasing, and 2H adds the contributions of two new consolidated companies, so considering that Group synergies can be expected, in FISCO's view, there is a high likelihood that full-year forecasts are exceeded.



Outlook

Overview of FY3/24 consolidated full-year forecast

	FY3/23		FY3/24		YoYT	
	Results	% of net sales	Forecast	% of net sales	Change	Change (%)
Net sales	7,771	100.0%	8,454	100.0%	683	8.8%
Gross profit	4,628	59.6%	5,020	59.4%	392	8.5%
SG&A expenses	1,872	24.1%	2,007	23.7%	135	7.2%
Operating profit	2,755	35.5%	3,013	35.6%	258	9.4%
Ordinary profit	2,692	34.6%	2,875	34.0%	183	6.8%
Profit attributable to owners of parent	1,685	21.7%	1,731	20.5%	46	2.7%

Source: Prepared by FISCO from the Company's materials

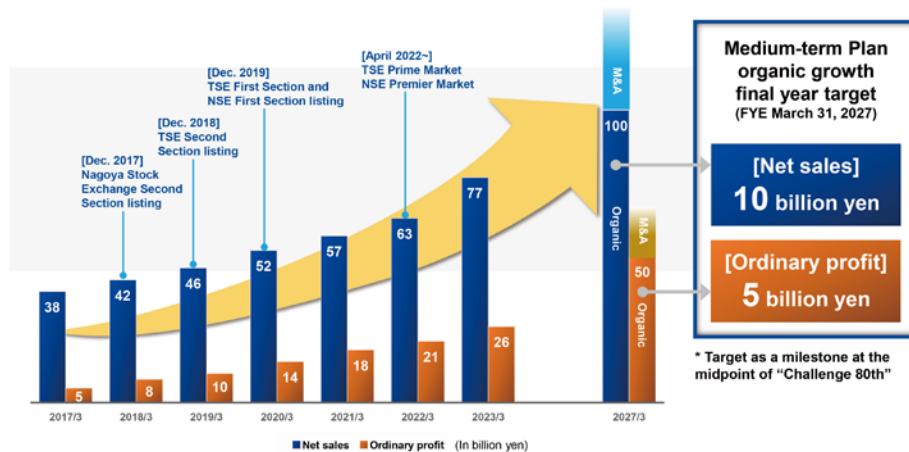
## Growth strategy

**In its long-term vision for its 80th anniversary, the Company is aiming for ¥12.0bn in ordinary income in FY3/32**

### 1. Long-term vision “Challenge 80th” and foundation-building stage of the first medium-term plan

On the occasion of its 70th anniversary in April 2022, the Company established its Challenge 80th MIDAC Group 10-year vision in June 2022 to embody what the Company is aiming to be in 10 years for its 80th anniversary. To fulfill Challenge 80th, the Company created the first of two medium-term plans, each of which will last five years. As a basic strategy, the Company will aim to become a true leader in the industry by promoting its evolution into one of the industry's leading comprehensive industrial waste processing companies. To accomplish this, the first medium-term plan (FY3/23 to FY3/27) is the stage of building a foundation to accelerate growth, while the second medium-term plan (FY3/28 to FY3/32) is positioned as the stage to establish an industry-leading position through accelerating growth. Results targets for FY3/27, the final year of the first medium-term plan, (organic growth excluding M&A) are net sales of ¥10.0bn, and ordinary profit of ¥5.0bn. For FY3/32, the final year of Challenge 80th the targets are net sales of ¥40.0bn and ordinary profit of ¥12.0bn.

#### First medium-term plan



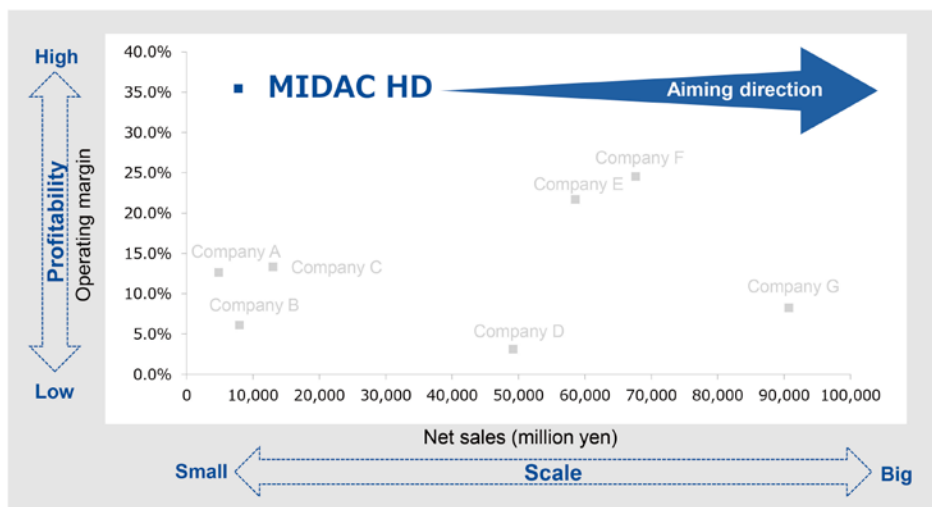
Source: The Company's results briefing materials

Growth strategy

Regarding development of business areas, the Company plans to focus on expansion in the Kanto region. Its most recent sales figure from FY3/23 was ¥7,771mn and the size of its business is smaller than its competitors, but leveraging its advantage in having multiple processing facilities and licenses, it plans to increase its scale while maintaining a high profit margin through active expansion in the Kanto area, a large market.

Regarding capital investment plans (intermediate treatment facilities and landfill sites), the Company will promote investing in increased volume and longer service lives at existing sites and will also select multiple candidate sites in the Pacific Belt region and Kanto area for facilities while simultaneously promoting plans with the aim of acquiring licenses for facility establishment at an early date. Regarding development plans for landfill sites in the first medium-term plan, the Company is planning to develop two sites for controlled landfill site (over 1.5-2.0mn m<sup>3</sup> each), but licenses for landfill sites are not easy to obtain and will require considerable time, so it has expanded candidate sites to all of eastern Japan. Regarding its two candidate sites, it has already performed topographical surveys and geological surveys and is in the midst of environmental surveys. Regarding development plans for intermediate treatment facilities, it acquired a new site for incineration facilities in Kumagaya City, Saitama Prefecture in March 2022. Further, it plans to start operating a new water treatment facility in Hamamatsu City, Shizuoka Prefecture from April 2026 (site acquired in December 2019). Regarding new facility development, it plans to actively utilize M&A and not just rely on its own development activities.

Comparison with competitors and aiming direction

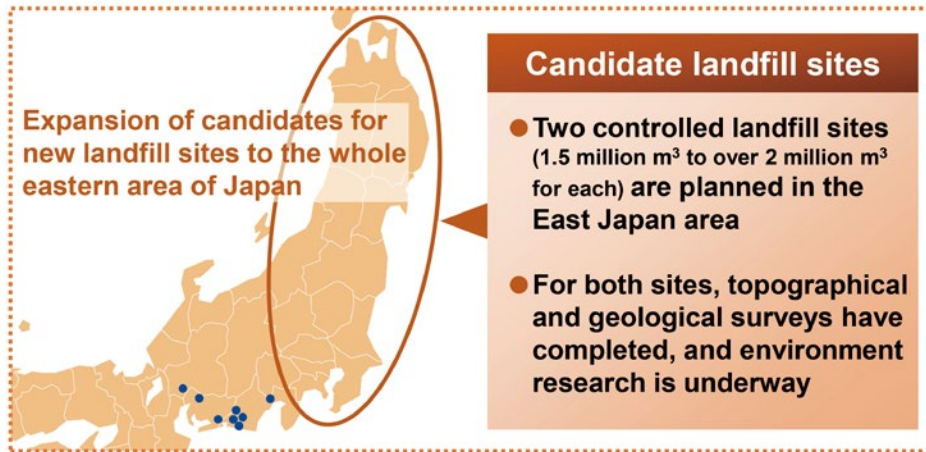


Source: The Company's results briefing materials

Growth strategy

Facility development plan

**We will promote development by establishing a wide range of site candidates for final landfill sites for which it may be difficult to obtain permits.**



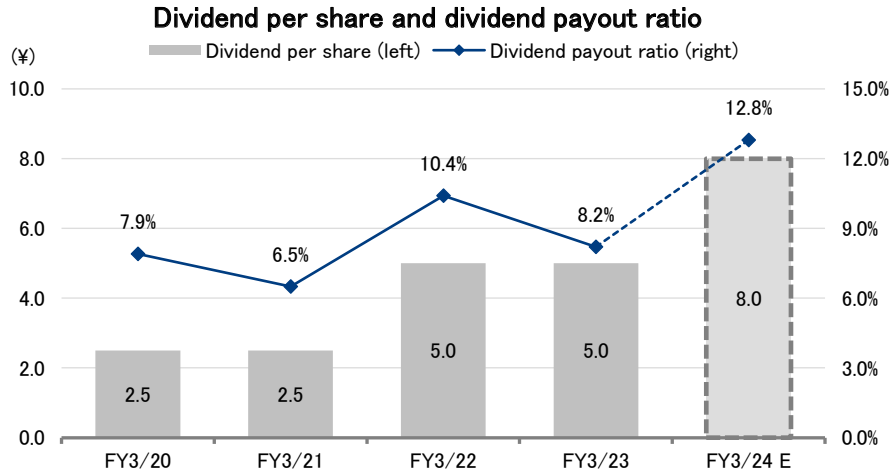
Source: The Company's results briefing materials

## Continuing to pay a stable dividend for shareholder returns

### 2. Shareholder return policy

Regarding returning profits to shareholders, the Company's basic policy is to continue to pay a stable dividend while strengthening its management base and financial position. With respect to internal reserves, they are to be used effectively to strengthen the management base and for investments to further expand the scope of business into the future. Based on this basic policy, for FY3/24, the dividend forecast was upwardly revised by ¥3.0 for the year-end on November 14, 2023, so this would mean a dividend for ¥8.0 (all year-end), a ¥3.0 increase on FY3/23. The payout ratio would be 12.8%. Going forward, we at FISCO believe the Company can be expected to increase its dividend and raise its payout ratio as its results expand.

Growth strategy



Note 1: A 2-for-1 stock split was conducted on July 1, 2021, so figures for FY3/20 and FY3/21 have been retroactively revised.

Note 2: FY3/22 including a regular dividend of ¥2.5 and a special 70th anniversary dividend of ¥2.5  
Source: Prepared by FISCO from the Company's materials

## Strengthening initiatives for decarbonization through sustainability management

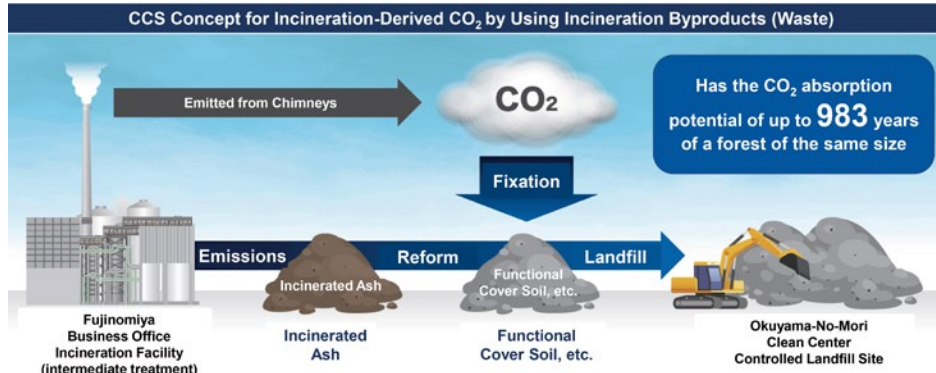
### 3. Sustainability management

The Company not only contributes to protecting the natural environment by reducing and de-toxifying waste through its business activities, specifically waste treatment, in April 2022 it established a Sustainability Committee to strengthen sustainability management initiatives, including decarbonization initiatives, initiatives for a better workplace environment, contributions to local communities and initiatives for regional revitalization.

An example of a decarbonization initiative is CO<sub>2</sub> capture and storage (CCS) technology for disposal sites being research jointly with the Waseda University GeoLab (Prof. Hideo Komine). The technology solidifies CO<sub>2</sub> given off by waste incineration facilities in the functional covering or waste produced from soot and dust discharged as a byproduct of incineration and stores it in a landfill site.

Growth strategy

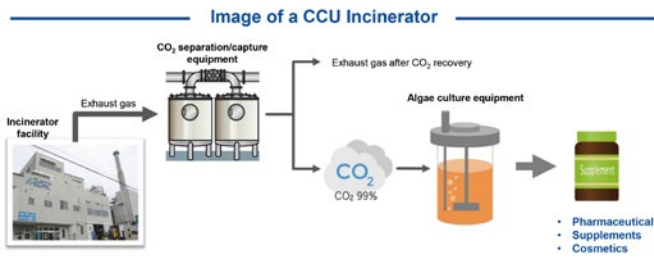
Development of CCS technologies at landfill sites



Source: The Company's results briefing materials

The Company also announced in April 2023 the start of joint research on carbon capture and utilization (CCU) technology involving the cultivation of microalgae for a decarbonized society. Subsidiary MIDAC concluded a joint research contract with ALNUR Co., Ltd., a subsidiary of PATH Corporation <3840>. Algae cultivation is one technology being focused on as a method of solidifying CO<sub>2</sub> that has been captured from the exhaust gas of factories, etc. ALNUR's strength is that it possesses continuous cultivation technology for the generative algae fucoxanthin, a rare substance derived from microalgae. Collaborating with ALNUR, the goal is to accelerate technology for the mass production and stable supply of fucoxanthin through microalgae cultivation that uses CO<sub>2</sub> from incineration and reduces CO<sub>2</sub> emissions while maintaining economic viability.

Microalgae culturing CCU technologies



Algae culturing is one of the technologies attracting attention as a method for fixing the CO<sub>2</sub> separated and recovered from the exhaust gases from factories, etc.

Source: The Company's results briefing materials



New laboratory at the MIDAC Fujinomiya Business Office



ALNUR R&D Center

In September 2023, MIDAC entered into a joint research agreement with Logomix Inc., a genome engineering company that started at Tokyo Institute of Technology, for the purpose of conducting development of environmental impact and cost reducing technologies for landfill sites. The Company aims to solve issues faced by landfill sites using biotechnologies, which is the strength of Logomix.

#### Growth strategy

With regard to other initiatives (SDGs, governance, workplace environment improvements, contributions to local communities, etc.), in May 2022, the Company established a voluntary Nomination and Compensation Committee and Special Committee to serve as advisory groups for the Board of Directors. Also, in June 2022, the Company declared its support for the recommendations of the Task Force on Climate-related Financial Disclosures. In June 2023, IWAHARA ORCHARDS (non-consolidated subsidiary), which is promoting initiatives to rein in CO<sub>2</sub> emissions, received Effort Certification under the Yamanashi prefectural government's Yamanashi 4 per 1000 Initiative Certification System for Agricultural Products. Going forward, it aims to acquire the Achievement Certification by compiling the results of carbon storage in soil. In September 2023, the Company established a joint venture, GREEN CIRCULAR FACTORY CO., LTD., to build a strategic creative partnership with YAMADA HOLDINGS and invest in growth in recycling-based infrastructure.

Moreover, to create a better workplace environment, the Company has a flexible working hours system called the Midac Omoiari System, which is a system of annual paid leave that allows the individual employee to choose the days to take off based on their own circumstances and requests, and offers support for child-raising and nursing care and also support for female employees. For building good relationships with local communities, the Company enters into agreements with municipalities on processing disaster waste when large scale disasters like earthquakes occur, has started and manages a corporate YouTube channel introducing SDGs initiatives, introduced a MIDAC SDGs Support Team system, holds interactive recycling classes, plants vegetation and removes weeds at Kiga Station as a part of Tenhama Line: Flower Relay Project Linking People and Times, and supplies food products to the Children's Cafeteria.

### **Highly profitable earnings structure is commendable, and progress in growth strategies from a medium- to long-term perspective is also a focus of attention**

#### 4. Analyst viewpoint

Looking at the Company's sales and profits over the past five years, it has been an upwards-moving expansion trend. Moreover, the profit margin has been increasing substantially as well. The Company has been superbly expanding scale while increasing profitability. The sector, waste treatment, has a somewhat bland reputation, but we at FISCO believe the Company should be highly commended for its business strategy and earnings structure that maintains earnings growth with a high profit margin. In addition, while it takes some time to establish new landfill sites, the Company has created a business plan with a medium- to long-term perspective and is steadily carrying out a growth strategy while utilizing M&A. This point should also be commended. Going forward, the focus will be on the progress of the first medium-term plan, which is positioned as a stage for building the foundation for growth acceleration, which includes active M&A and capital investment.



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