

Maezawa Kyuso Industries Co., Ltd.

6485

Tokyo Stock Exchange Prime Market

1-Jul.-2022

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FISCO Ltd.

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

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<https://www.qso.co.jp/ir.html>

Summary

A leading manufacturer of water supply equipment with strengths in meeting customer needs, brand power, and technological capabilities. Aiming for sustainable growth by expanding stable revenues from core businesses and creating drivers for new growth by expanding into adjacent business areas

Maezawa Kyuso Industries Co., Ltd. <6485> (hereinafter, “the Company”) is a comprehensive manufacturer of water supply equipment headquartered in Tokyo’s Meguro Ward that engages in the design, manufacture, and sale of products including corporation stops with saddles, stop valves, and pipe fittings. The Company operates under its guiding principle of QSO (Quality, Safety, and Originality), defined as “quality is personality, safety is cooperation, and originality is reform,” and its mission is to provide clean, safe, and good-tasting water. Based on this, it plays an important role in the development of the water supply industry as a leading manufacturer of water supply equipment that brings valuable water to people’s lives. In recent years, it has expanded its water-related business to include the manufacture and sale of indoor cold and hot water supply plumbing components and components for floor heating systems, and it is also working to develop new products that meet customers’ needs and establish an environmentally friendly production framework.

1. Outline of results for FY3/22

In the Company’s consolidated results for FY3/22*, net sales increased by 4.8% YoY to ¥28,789mn, operating profit declined by 16.6% to ¥2,139mn, ordinary profit declined 14.8% to ¥2,287mn, and profit attributable to owners of parent declined 19.7% to ¥1,498mn. Overall net sales showed a recovery and have become steady. On the other hand, profits fell due to the impact of factors such as limitations on business activities due to the COVID-19 pandemic and sudden steep increases in the prices of materials, despite continued efforts to make operations more efficient during the COVID-19 pandemic. By segment, even though the water supply equipment segment saw an increase in revenue supported by steady demand for water distribution pipe replacement work and household demand, profits decreased due to an increase in procurement costs following a significant rise in the price of copper, one of the main materials used by the business, compared to the previous fiscal year. In the housing equipment segment, the number of housing starts remained steady, leading to a rise in revenue due to an increase in sales of components for indoor cold and hot water supply systems.

* The Company is applying the Accounting Standard for Revenue Recognition, etc. from FY3/22 so values for FY3/21 have been retroactively adjusted.

2. FY3/23 forecasts

For FY3/23 consolidated financial results, the Company is forecasting net sales of ¥29,290mn, up 1.7% YoY, operating profit of ¥1,830mn, down 14.5%, ordinary profit of ¥1,990mn, down 13.0%, and profit attributable to owners of parent of ¥1,320mn, down 11.9%. To stem the decline in profits caused by rising costs and to secure robust profit opportunities, the Company plans to appropriately reflect the increase in materials prices in sales prices and work to cut costs by making operations more efficient. Although a decline is anticipated in each type of profit, these forecasts include extremely conservative exchange rate estimates following recent severe fluctuations in the currency market. We at FISCO believe that if the Company can stabilize materials procurement costs and properly reflect materials price increases in sales prices, then it may be able to achieve higher profits than forecast.

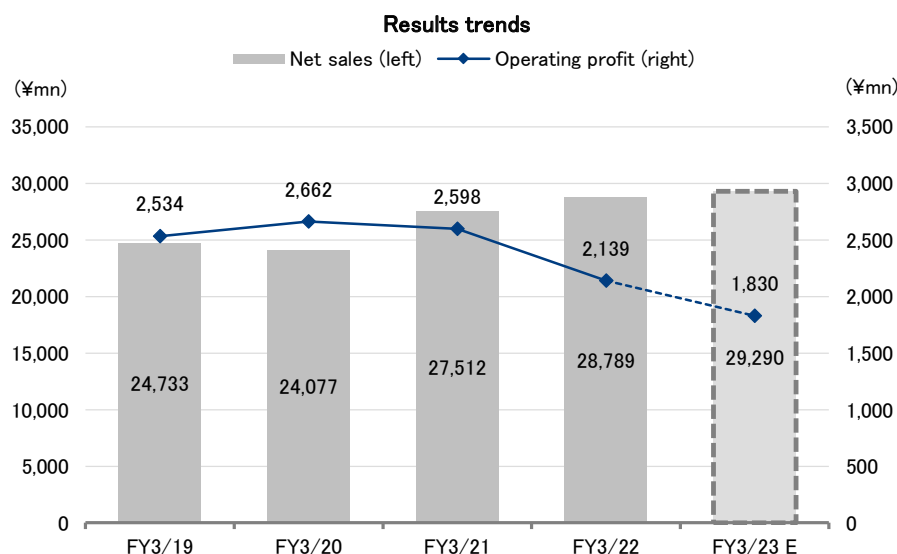
Summary

3. Medium-term management plan

While the Company's business does include a stable portion related to public waterworks, a large portion of it is linked to household demand that is easily affected by changes in the economic climate. As it is not uncommon for the outlook to change drastically, it has not released a medium-term management plan. However, after transferring its listing to the Prime Market of the Tokyo Stock Exchange (TSE), in May 2022 it formulated Medium-term Management Plan 2024, which has FY3/25 as its final year. The three basic policies of the plan are 1) advance business portfolio management, 2) realize sustainable management, and 3) strengthen efforts to ensure stakeholders benefit from profits. Through these, in FY3/25 it aims to achieve net sales of ¥30.5bn, operating profit of ¥2.6bn, an operating margin of 8.5%, and ROE of at least 5%. In regard to 1) advance business portfolio management, it aims to increase stable contributions from its core businesses by leveraging its strengths, such as a wealth of expertise related to manufacturing, to differentiate from competitors and secure a competitive advantage. At the same time, it will generate drivers for new growth by expanding into adjacent business areas, including through M&As, to strengthen its business portfolio. Considering that the pipe components handled by the Company can be applied in a wide range of fields other than water supply, such as gas and air conditioning, and that there is a lot of scope for diversifying its housing and construction facilities business into related areas, at FISCO we think that the Company has a lot of options for expanding its business. Also, its establishment of Maezawa Living Solutions Co., Ltd. as a consolidated subsidiary enabled entry into the floor heating market and made operations more efficient, so we think it is highly possible that the Company can repeat this process to expand its business and secure drivers for new growth through M&As.

Key Points

- The Company plays an important role in the development of the water supply industry as a leading manufacturer of water supply equipment with a mission to provide clean, safe, and good-tasting water and comfortable living spaces
- In FY3/22, overall net sales showed a recovery and have become steady and efforts to make operations more efficient minimized the negative impact of rising copper prices
- It aims to realize sustainable growth and further enhance corporate value by expanding its revenue base even more and continuing efforts to make operations more efficient
- It has formulated a medium-term management plan for achieving sustainable growth, targeting net sales of ¥30.5bn and operating profit of ¥2.6bn in FY3/25



Note: The Accounting Standard for Revenue Recognition, etc., has been applied from FY3/22
 Source: Prepared by FISCO from the Company's financial results

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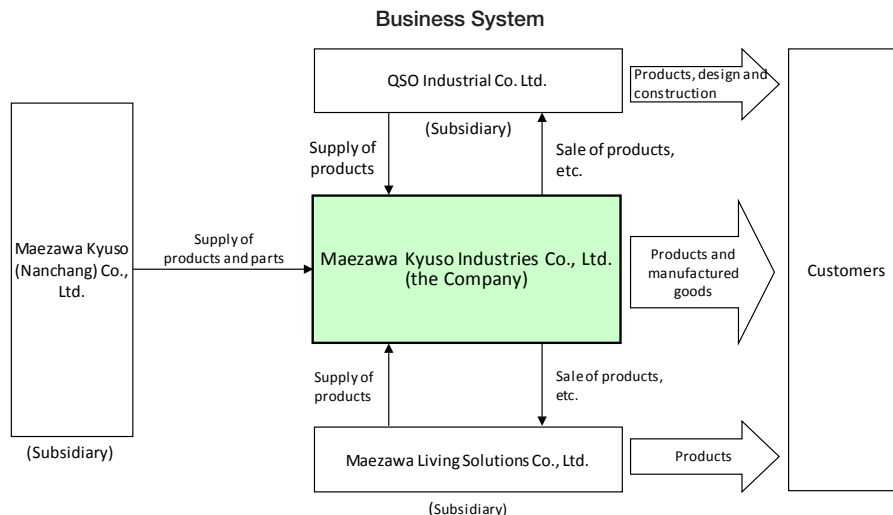
Company profile

Playing an important role in the development of the water supply industry as a leading manufacturer of water supply equipment with a mission to provide clean, safe, and good-tasting water and comfortable living spaces

1. Company profile

The Company is a comprehensive manufacturer of water supply equipment headquartered in Tokyo’s Meguro Ward that engages in the design, manufacture, and sale of products including corporation stops with saddles, stop valves, and pipe fittings. Under its mission of providing clean, safe, and good-tasting water and comfortable living spaces, it plays an important role in the development of the water supply industry as a leading manufacturer of water supply equipment that brings valuable water to people’s lives. In recent years, it has expanded its water-related business to include the manufacture and sale of indoor cold and hot water supply plumbing components and components for floor heating systems, started selling air conditioning products, and is also working to develop new products that meet customers’ needs and establish an environmentally friendly production framework.

Based on its QSO guiding principle, defined as “quality is personality, safety is cooperation, and originality is reform,” the Company works to achieve its mission of working to supply clean, safe and better-tasting water by putting the needs of customers first in its business activities. Also, as a company that plays an important role in the water supply industry, it always remains conscious of the importance of water pipes as a lifeline, and by fulfilling its social responsibilities, contributes to the development of local communities.

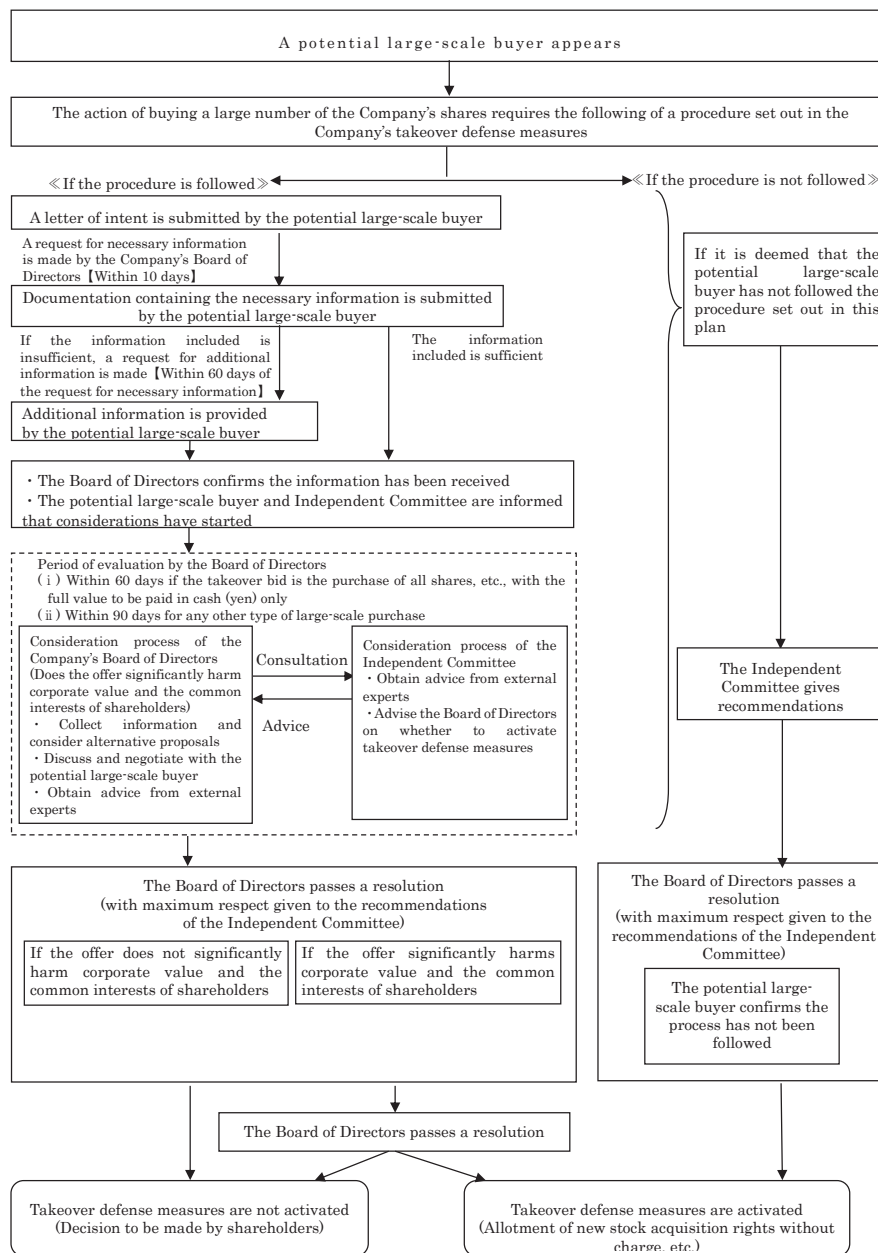


Source: The Company's annual securities report

Company profile

Additionally, at the 64th Ordinary General Meeting of Shareholders held on June 25, 2020, the Company resolved to continue its existing takeover defense measures with partial amendments, conditional on the approval of shareholders (the proposal was approved). Basically, it sets forth measures deemed necessary and appropriate in certain situations to protect corporate value and the common interests of shareholders by preventing a takeover that might infringe on shareholder return and the sources of the Company’s corporate value, namely its wealth of exclusive expertise related to manufacturing, its proprietary production management system, its brand power built on relationships of trust with water supply businesses, pipe material suppliers, and waterworks contractors across Japan, and its ability to meet the needs of customers through a combination of products and sales.

Overview of Takeover Defense Measures



Source: The Company's materials

Company profile

2. History

The Company was founded in 1937 as Showa Seisakusyo Corporation. In 1957, it established Tokyo Suido Industries Co., Ltd. and then switched to its current name in 1965. Following this, it actively engaged in building plants and opening logistics centers and other functions. In 1991, it registered with the Japan Securities Dealers Association as an over-the-counter stock and then listed on the TSE Second Section in 1998, before moving to the First Section in 2005. In April 2022, it transferred to the TSE Prime Market following the restructuring of the exchange.

History

Date	Outline
1937	Founded as Showa Seisakusyo Corporation
January 1957	Tokyo Suido Industries Co., Ltd. established in Meguro Ward, Tokyo
October 1965	Name changed to Maezawa Kyuso Industries Co., Ltd.
October 1968	Saitama Plant established in Satte (now Satte City), Kita-Katsushika District, Saitama Prefecture
April 1972	Saitama Plant designated as a designated inspection plant by the Japan Water Works Association
October 1991	Registered as an over-the-counter stock with the Japan Securities Dealers Association
March 1994	Fukushima Plant established in Shirasawa (now Motomiya City), Adachi District, Fukushima Prefecture
March 1996	An extension is added to the Fukushima Plant and manufacture of crosslinked polyethylene pipes begins
March 1997	Toshin Shoji Co., Ltd. (now QSO INDUSTRIAL INC.) acquired and made into a consolidated subsidiary
November 1997	Fukushima Plant acquires ISO 9001 international quality assurance standard
February 1998	Listed on the TSE Second Section
July 1999	Fukushima Plant acquires JIS quality assurance certification
June 2000	Osaka Logistics Centre established in Osaka City, Osaka Prefecture, and Osaka Branch moved
July 2001	Kyushu Logistics Centre established
January 2002	ISO 014001 international environmental management standard acquired (Head Office, Tokyo Sales Office, Saitama Plant, and Fukushima Plant) Maezawa Kyuso (Nanchang) Co., Ltd. established (now a consolidated subsidiary)
March 2004	Saitama Plant integrated into Fukushima Plant
September 2005	Listing moved to the TSE First Section
September 2015	Head Office moved to Meguro Ward, Tokyo
March 2020	Maezawa Living Solutions Co., Ltd. established (now a consolidated subsidiary)
February 2021	Established a voluntary Remuneration Committee as an advisory body to the Board of Directors
December 2021	Established a Nominating Committee
April 2022	Transferred to the TSE Prime Market following the restructuring of the exchange

Source: Prepared by FISCO from the Company's securities reports

Business overview

Providing products that form a lifeline for people, from water supply equipment to indoor cold and hot water supply plumbing components and floor heating and air conditioning components. Strengths in an ability to meet customers' needs and brand power built on relationships of trust with customers

1. Business overview

The Company is a leading manufacturer of water supply equipment, providing products that form a lifeline for people, from water supply equipment to indoor cold and hot water supply plumbing components and floor heating and air conditioning components. In terms of business segments, it comprises a water supply equipment segment (manufacture and sale of water supply equipment), a housing equipment segment (manufacture and sale of housing equipment), and a product sales segment. It is a balanced business portfolio with the water supply equipment segment offering stability and the housing equipment segment offering future growth potential.

(1) Water supply equipment segment

The water supply equipment segment manufactures and sells products such as corporation stops with saddles, stop valves, various types of pipe fittings, and water meters, with a scope of use ranging from water distributing pipes laid under roads to household water supply fittings. The market for the business is maturing, as water supply infrastructure is already well established, and population decline in recent years means that sales of housing products for new starts is on a downward trend. However, much of the water distributing pipes (water mains) installed during Japan's period of rapid economic growth is aging, meaning there is stable demand for upgrade products and anti-seismic products that offer earthquake protection.

(2) Housing equipment segment

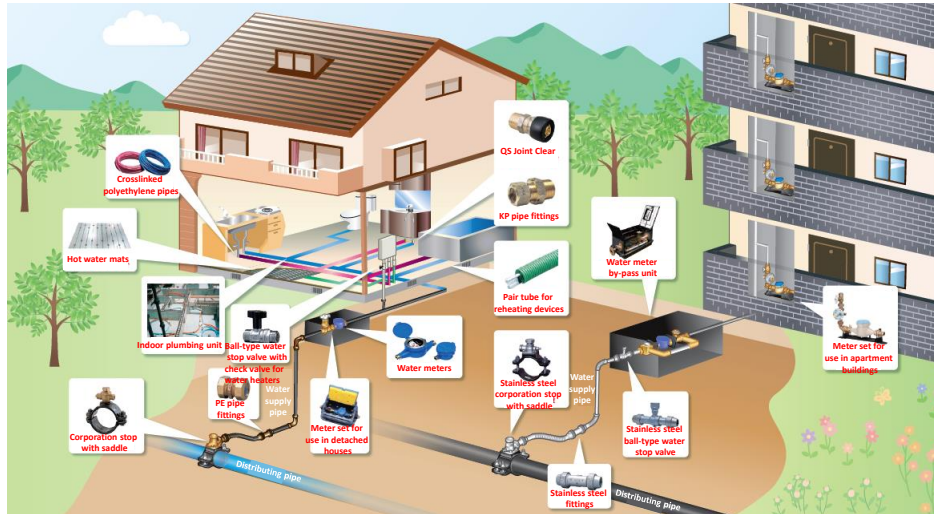
The housing equipment segment manufactures and sells cold and hot water plumbing components for use in houses, as well as unitized cold and hot water supply systems composed of these components, and it is also developing a floor heating business. In addition to this, it is planning to actively enter markets that include non-housing properties, including launching products for use in air conditioning systems.

(3) Product sales segment

The product sales segment sells procured products related to the ones used in the other businesses.

Business overview

Example Applications of the Company's Products



Source: The Company's materials

2. Company's strengths

The Company's strengths are 1) a wealth of exclusive expertise related to manufacturing, 2) a proprietary production management system, 3) brand power built on relationships of trust with water supply businesses, pipe material suppliers, and waterworks contractors across Japan, and 4) an ability to meet the needs of customers through a combination of production and sales.

(1) A wealth of exclusive expertise related to manufacturing

The Company has established an integrated production system at its plants, spanning from casting, processing, and assembly through to inspection and shipping, and everything is managed in-house, even down to the molds used in production lines. It also practices thorough quality control. It has derived a wealth of exclusive expertise related to manufacturing from the experience and data accumulated through each of these processes over many years, and this enhances the competitiveness of the products it develops.

(2) A proprietary production management system

Although the performance required of water supply equipment can differ due to factors such as usage environment and conditions, the Company's products are used by water supply businesses throughout Japan, amounting to many thousands of units. Accordingly, the Company has established a proprietary production management system that combines business information which facilitates accurate prediction of demand with a flexible plant operations structure that enables high-mix low-volume production to provide a framework that can ensure a stable supply of each product.

(3) Brand power built on relationships of trust with water supply businesses, pipe material suppliers, and waterworks contractors across Japan

To date, the Company has developed water supply equipment that pursues safety, convenience, and workability and it has consistently provided a stable supply of required products, winning it a long-held reputation for reliability among stakeholders in the water supply industry. This brand power built on strong relationships of trust has become an important foundation of the Company's business.

Business overview

(4) An ability to meet the needs of customers through a combination of production and sales

The Company has established 27 business locations across Japan providing a network that enables it to accurately identify the needs of customers and respond promptly, from product development through to manufacture and supply.

Results trends

In FY3/22, overall net sales showed a recovery and have become steady and efforts to make operations more efficient minimized the negative impact of rising copper prices

1. Outline of results for FY3/22

In the Company's consolidated results for FY3/22, net sales increased by 4.8% YoY to ¥28,789mn, operating profit declined by 16.6% to ¥2,139mn, ordinary profit declined 14.8% to ¥2,287mn, and profit attributable to owners of parent declined 19.7% to ¥1,498mn. Overall net sales showed a recovery and have become steady. On the other hand, profits fell due to the impact of factors such as sudden steep increases in the price of materials.

Consolidated results for FY3/22

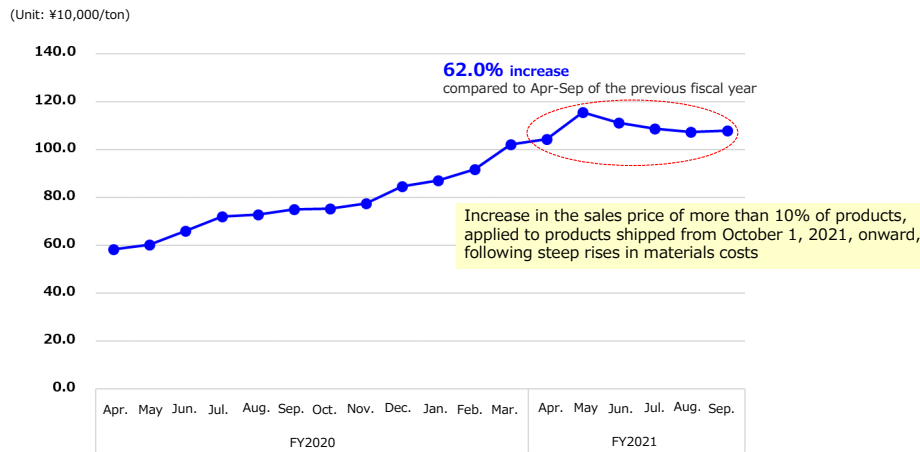
	FY3/21		FY3/22		Change	
	Results	% of total	Results	% of total	Amount	Percentage
Net sales	27,479	-	28,789	-	1,309	4.8%
Water supply equipment segment	14,875	54.1%	15,453	53.7%	578	3.9%
Housing equipment segment	10,249	37.3%	10,882	37.8%	632	6.2%
Product sales segment	2,353	8.6%	2,452	8.5%	98	4.2%
Operating profit	2,565	9.3%	2,139	7.4%	-425	-16.6%
Water supply equipment segment	4,869	32.7%	4,333	28.0%	-536	-11.0%
Housing equipment segment	2,077	20.3%	1,956	18.0%	-121	-5.8%
Product sales segment	17	0.7%	120	4.9%	102	578.3%
Adjustment	-4,399	-	-4,270	-	129	-
Ordinary profit	2,683	9.8%	2,287	7.9%	-396	-14.8%
Profit attributable to owners of parent	1,866	6.8%	1,498	5.2%	-368	-19.7%

Note: The Accounting Standard for Revenue Recognition, etc., has been applied from FY3/22 so values for FY3/21 have been retroactively adjusted
 Source: Prepared by FISCO from the Company's financial results

The quoted price of copper, which is a key material for the Company, started rising in December 2020, when it was ¥850,000 per ton, and in May 2021 it reached a record high of ¥1,190,000 per ton. The average price over the first half of FY3/22 (April to September) was ¥1,092,000 per ton, which was significantly higher than the average of ¥674,000 per ton recorded in the same period of the previous fiscal year. Accordingly, the Company has increased the sales price of more than 10% of its products, which has been applied to products shipped from October 1, 2021, onward.

Results trends

Copper Quotation Price Trend



Source: The Company's supplementary materials to financial statements

Trends by business segment are as follows.

(1) Water supply equipment segment

Although they have not recovered to levels recorded before the COVID-19 pandemic, net sales for the segment rose 3.9% YoY to ¥15,453mn (adjusted amount allocated to each segment), supported by firm demand from water distribution pipe replacement work and from housing. On the other hand, segment profit declined by 11.0% to ¥4,333mn due to an increase in procurement costs as the price of copper, a key material, significantly exceeded levels recorded in the previous fiscal year. The Company focused on proposals featuring products that offer excellent anti-seismic properties and workability.

(2) Housing equipment segment

Net sales for the segment rose 6.2% YoY to ¥10,882mn (adjusted amount allocated to each segment) due to an increase in sales of products such as components for cold and hot water supply systems, as the number of new housing starts remained steady. On the other hand, segment profit decreased 5.8% to ¥1,956mn following changes to sales composition. The Company focused on expanding sales channels, including to house building companies, and it also started selling products for air conditioning and made sales activities more effective by restructuring operations with consolidated subsidiary Maezawa Living Solutions.

(3) Product sales segment

Net sales for the segment rose 4.2% YoY to ¥2,452mn and segment profit rose 578.3% to ¥120mn due to an increase in sales of resin products.

2. Main initiatives

The Company aims to realize sustainable growth and further enhance corporate value by expanding its revenue base and continuing efforts carried out during the COVID-19 pandemic to make operations more efficient. Specifically, it is taking advantage of synergies with Maezawa Living Solutions. The Company has leveraged the subsidiary's nationwide network to expand its sales area and has also cut costs by combining manufacturing technologies. Other initiatives to date include making sales within the Group more efficient, expanding sales of cold and hot water supply components to heating equipment providers, expanding sales of hot water mats to gas companies in West Japan, and strengthening frameworks for selling hot water mats to heat pump manufacturers in the Tohoku region.

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Results trends

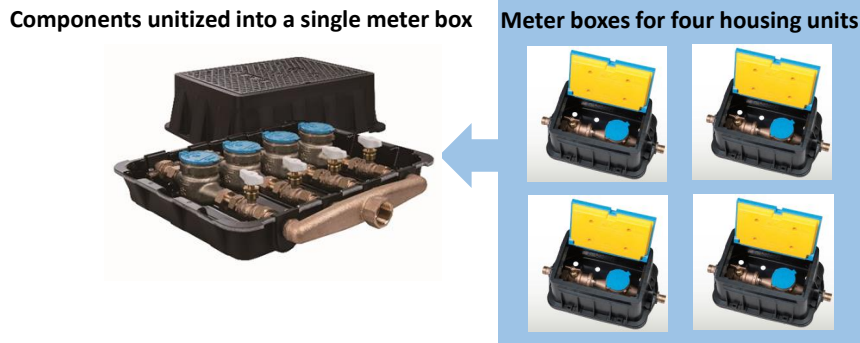
It has also been pursuing the following business policies: 1) Actively develop the water supply equipment segment, and 2) expand the housing equipment segment.

(1) Actively develop the water supply equipment segment

The Company has been developing new products that meet customers' needs, such as products for low-rise apartment buildings and products for polyethylene water distribution pipes. The reason for developing products for low-rise apartment buildings is that the rate of construction of two-story apartment buildings has been steady, accounting for around 10% of all new housing construction. This is creating greater demand for water meters that take up less space, so the Company has integrated multiple water meter units into multiple meter sets. It has already launched double-meter and triple-meter sets, and has developed and commercialized a quadruple-meter set. The reason for developing products for polyethylene water distribution pipes is a response to rising demand for water stop valve-related products from each water supply business entity.

Example of product development that meets customers' needs
 (multiple meter set: quadruple-meter set)

**Multiple meter set:
 quadruple-meter set**



Source: The Company's financial statement briefing materials

(2) Expand the housing equipment segment

To date, in addition to selling through pipe material suppliers, the Company has also been strengthening sales activities targeting house builders, low-cost housing constructors called power builders, and construction companies. It also leveraged its technology and the technology of its subsidiaries to strengthen sales of products for air conditioning equipment and road heating with the aim of expanding sales channels by entering into the new market of non-housing properties.

Results trends

3. Financial condition and business indicators

Total assets as of the end of FY3/22 were ¥45,619mn, an increase of ¥1,579mn from the end of FY3/21. Within this, current assets increased by ¥1,975mn to ¥31,806mn. The main factors behind this were an increase of ¥316mn in cash and deposits, an increase of ¥365mn in electronically recorded monetary claims – operating, an increase of ¥299mn in securities, and an increase of ¥779mn in inventories. Non-current assets declined by ¥396mn to ¥13,813mn, primarily due to a decrease in investment securities. Total liabilities increased by ¥360mn to ¥7,989mn. Within this, current liabilities increased by ¥375mn to ¥7,121mn. This was mainly due to an increase of ¥757mn in accounts payable – trade and an increase of ¥116mn in electronically recorded obligations – operating, which more than offset a decrease of ¥160mn in income taxes payable and a decrease of ¥358mn in accrued consumption taxes. Non-current liabilities decreased by ¥15mn to ¥867mn. Total net assets increased by ¥1,218mn to ¥37,630mn, primarily due to a ¥995mn increase in retained earnings. Retained earnings have continued to increase since FY3/16 (¥23,721mn), reflecting the stable growth of profit.

Regarding business indicators, the Company has continued to maintain a high equity ratio of 82.5% (82.7% at the end of FY3/21). It also saw YoY improvements in its current ratio of 446.7% (444.1%) and fixed assets ratio of 36.7% (39.0%), showing that liquidity on hand is not a problem.

Consolidated balance sheet and business indicators

	(¥mn)		
	End of FY3/21	End of FY3/22	Change
Current assets	29,830	31,806	1,975
(Cash and deposits)	13,985	14,301	316
Non-current assets	14,210	13,813	-396
Total Assets	44,040	45,619	1,579
Current liabilities	6,745	7,121	375
Non-current liabilities	883	867	-15
Total liabilities	7,628	7,989	360
Total net assets	36,412	37,630	1,218
(Business indicators)			
Equity ratio	82.7%	82.5%	-0.2pt
Current ratio	444.1%	446.7%	2.6pt
Fixed assets ratio	39.0%	36.7%	-2.3pt
Net assets per share	1628.24	1695.40	67.16

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

Looking at cash flow in FY3/22, although there was an inflow of ¥1,061mn in cash flow from operating activities, this was mainly due to decreases in trade receivables and accrued consumption taxes and an increase in inventories. Cash flow from investing activities saw an outflow of ¥207mn, but this was primarily due to spending on the acquisition of investment securities and property, plant and equipment. Cash flow from financing activities saw an outflow of ¥708mn, mainly due to spending on the purchase of treasury shares and an increase in dividends paid. As a result, total cash and cash equivalents as of the end of FY3/22 were ¥13,546mn, an increase of ¥197mn from the end of FY3/21.

Results trends

Consolidated cash flow statement

	FY3/21	FY3/22
		(¥mn)
Cash flow from operating activities	3,233	1,061
Cash flow from investing activities	-1,278	-207
Cash flow from financing activities	-700	-708
Change in cash and cash equivalents	1,278	197
Cash and cash equivalents at the end of the period	13,348	13,546

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

■ Outlook

Forecasts of a drop in profits following steep rises in the prices of materials give a conservative impression. Sales prices will be raised appropriately, and costs reduced by making operations more efficient

● Outlook for FY3/23

For the FY3/23 consolidated results, the Company is forecasting net sales to increase 1.7% YoY to ¥29,290mn, operating profit to decrease 14.5% to ¥1,830mn, ordinary profit to decrease 13.0% to ¥1,990mn, and profit attributable to owners of parent to decrease 11.9% to ¥1,320mn.

Consolidate outlook for FY3/23

	FY3/22		FY3/23		Change	
	Results	% of net sales	Forecast	% of net sales	Amount	Percentage
Net sales	28,789	-	29,290	-	501	1.7%
Operating profit	2,139	7.4%	1,830	6.2%	-309	-14.5%
Ordinary profit	2,287	7.9%	1,990	6.8%	-297	-13.0%
Profit attributable to owners of parent	1,498	5.2%	1,320	4.5%	-178	-11.9%
Earnings per share (¥)	67.25	-	59.47	-	-	-

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

Outlook

Although the number of new housing starts is recovering, concerns regarding the procurement of resources and materials remain unchanged due to factors such as limitations on business activities due to the COVID-19 pandemic and anticipation of a prolonging of the situation in Ukraine, and because of these factors, combined with the weakening of the yen, prices are continuing to rise rapidly. Within this business environment, the Company plans to stem the decline in profits caused by rising costs and to secure robust profit opportunities by appropriately reflecting the increase in materials prices in sales prices and working to cut costs by making operations more efficient. Furthermore, although it is forecasting a decline in each type of profit, these forecasts include extremely conservative exchange rate estimates following recent severe fluctuations in the currency market. We at FISCO believe that if the Company can stabilize materials procurement costs and properly reflect materials price increases in sales prices, then it may be able to achieve higher profits than forecast. The Company is one of the leading companies in the industry, which puts it in a relatively strong position to raise prices. We also assume that it will avoid wearing itself down by getting into an impossible to win price competition with other companies in the industry. As a result, we believe that by properly reflecting materials price increases in sales prices, the Company can recover to appropriate profit levels.

■ Medium- to long-term growth strategy

Formulated Medium-term Management Plan 2024 to achieve sustainable growth. Targeting net sales of ¥30.5bn and operating profit of ¥2.6bn in FY3/25

While the Company's business does include a stable portion related to public works, a large portion of it is linked to household demand that is easily affected by changes in the economic climate. As it is not uncommon for the outlook to change drastically, it has not released a medium-term management plan. However, upon transferring its listing to the TSE Prime Market in May 2022, it formulated Medium-term Management Plan 2024, which has FY3/25 as its final year.

1. Management policy to date

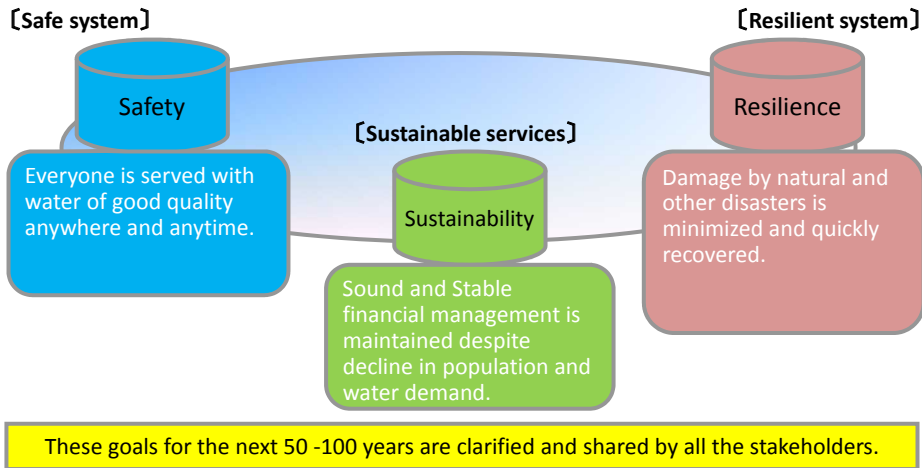
To date, the Company has been pursuing the medium- to long-term policies of establishing efficient production structures, reducing delivery costs by streamlining logistics, and strengthening sales and investing in development in growth areas, with the target of an ordinary profit to net sales ratio of at least 10%, and it has been steadily implementing measures to achieve this. It also agrees with the basic principles of the New Water Supply Vision* released by the Ministry of Health, Labour and Welfare in March 2013, and it has taken on a role in realizing this ideal water supply situation by advancing initiatives to enhance corporate value in a way that responds to changes in the times and environment.

* A vision announced by the Ministry of Health, Labour and Welfare in March 2013 following significant changes in the water supply situation, including Japan's shrinking population and issues brought to light by the 2011 Tohoku earthquake and tsunami. It sets forth an ideal water supply situation focused on 50 years and 100 years into the future.

Medium- to long-term growth strategy

Goal of Water Supply

Water supply which is capable of sustainably supplying water that is appropriate in quality and amount to anyone, anywhere and anytime with reasonable costs by adapting to changes in the times and in the environment



Source: Ministry of Health, Labour and Welfare's New Water Supply Vision (March 2013)

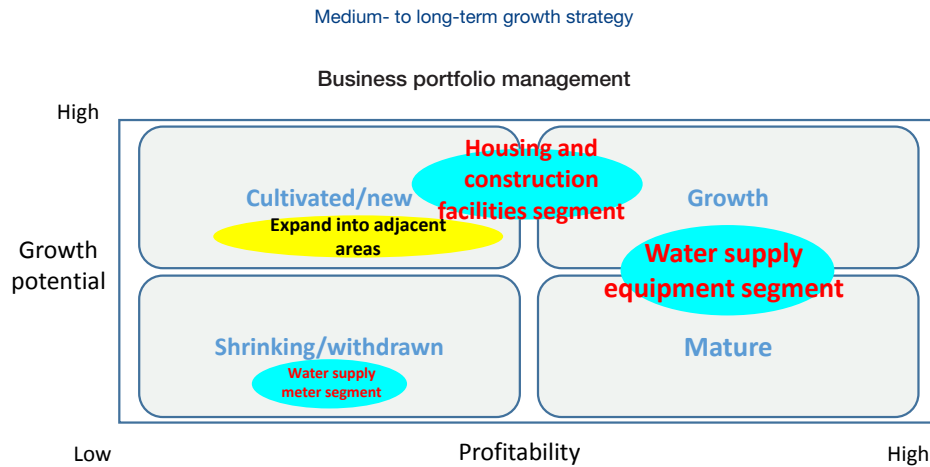
2. Medium-term management plan

Medium-term Management Plan 2024, formulated in May 2022, has three basic policies: 1) advance business portfolio management, 2) realize sustainable management, and 3) strengthen efforts to ensure stakeholders benefit from profits. Through these, the Company aims to achieve net sales of ¥30.5bn, operating profit of ¥2.6bn, an operating margin of 8.5%, and ROE of at least 5% in FY3/25. Its plan for achieving its net sales target is to reflect rising materials prices in sales prices while also expanding in growth areas. In order to achieve its target for operating profit, it will respond to rapidly rising materials costs by reflecting them in sales prices while also making operations more efficient.

(1) Advance business portfolio management

The Company has clarified the positioning of its business areas and is advancing business portfolio management. It plans to increase stable contributions from its core businesses while also strengthening its business portfolio by generating drivers for new growth through expansion into adjacent business areas. The water supply equipment segment, which enjoys stable demand, is a key business that provides an unwavering revenue base, so it has been positioned as a core business. The Company will aim to increase profits further by expanding its range of high-performance products. The housing and construction facilities segment*, which the Company entered into by leveraging the sales base and technology of the water supply equipment segment, has been positioned as a growth driver, and the Company is working to grow it into the next core business. Currently, it is expanding efforts in the area as a growth driver and encouraging greater efficiency within the Group. The product sales segment, which supplements and encourages the growth of the other two businesses, has been positioned as a shared peripheral business. Additionally, the Company plans to shrink its water supply meter segment.

* Categorized under the housing equipment segment in the Company's financial statements.



Source: The Company's Medium-term Management Plan 2024

a) Pursuing a competitive position (differentiation that leverages strengths)

In order to expand the stable revenue base of core businesses, the Company is pursuing a competitive position by differentiating in a way that leverages its strengths. Specifically, it plans to maintain and grow the market share of its core products by capturing demand connected to the replacement of aging pipe infrastructure, which is anticipated to be robust.

It aims to create new added value by developing technology focused on changes in the business environment while leveraging its sales network to provide the most appropriate response to customer needs. It is also expanding its anti-seismic products and carrying out thorough quality control to ensure resilient water supply functions can be maintained in times of disaster.

b) Expanding into adjacent areas (creating drivers for new growth)

The Company plans to generate drivers for new growth by expanding into adjacent business areas, including through M&As. Considering that the pipe components handled by the Company can be applied in a wide range of fields other than water supply, such as gas and air conditioning, and that there is a lot of scope for diversifying its housing and construction facilities business into related areas, at FISCO we think that the Company has a lot of options for expanding its business. Also, its establishment of Maezawa Living Solutions Co., Ltd. as a consolidated subsidiary enabled entry into the floor heating market and made operations more efficient, so we think it is highly possible that the Company can repeat this process to expand its business and secure drivers for new growth through M&As.

(2) Realizing sustainable management

The Company is actively engaging in CSR activities. To date, it has focused its efforts on four of the Sustainable Development Goals (SDGs): 6) Clean Water and Sanitation: Universal access to safe water and adequate sanitation, 11) Sustainable Cities and communities: Make cities and human settlements inclusive, safe, resilient and sustainable, 12) Responsible Consumption and Production, and 15) Life on land: Ensure that life on land can flourish.

This is addressed in the medium-term management plan through a new sustainability policy which aims to realize sustainability under a vision of coexistence with society, harmony with the environment, respect for human resources, and responsible behavior.

Medium- to long-term growth strategy

To achieve coexistence with society, the Company will maintain inventory levels that are appropriate for a company that is responsible for an important lifeline with the aim of realizing a comfortable society in which people can live safely and with peace of mind. Regarding harmony with the environment, the Company aims to reduce the environmental impact of its business by promoting carbon neutral initiatives, including the use of renewable energy such as solar power, as well as actively recycling materials. Regarding respect for human resources, it plans to raise employee engagement (comprehension, empathy and willingness to act) by promoting health and productivity management (occupational health and safety) and realizing workplaces that provide satisfaction and a sense of security. It is also working to make operations more efficient through digitalization which will lead to work environments that facilitate a healthy work-life balance. The Company will practice responsible behavior by implementing initiatives to increase the effectiveness of the Board of Directors in accordance with the Corporate Governance Code and by making management more transparent, in order to establish a governance framework that will be trusted by stakeholders. It will also strive to ensure the continuing soundness of management through thorough compliance.

An example of the Company's SDGs activities is its participation in the Aoshita-no-Mori Project, a public-private initiative seeking to protect and nurture a watershed protection forest owned by Sendai City. The Company is contributing to the project by regularly planting trees in order to conserve the forest. Also, in December 2019, it opened Maezawa Farm Yachiyo, a company-owned farm located in Yachiyo, Chiba Prefecture, as a new initiative to provide employment opportunities for people with disabilities. Produce grown at the farm is then donated to projects such as Kodomo Shokudo, an initiative that provides free or low-cost meals to children. Another example initiative is support for the international cooperation activities of JICA trainees. It is contributing to the development of water supply industries in developing countries by providing regular technical training on water supply equipment using Company products in order to provide knowledge and enhance skills in the water supply field.

Example SDGs Initiatives



Source: The Company's Medium-term Management Plan 2024

(3) Strengthen profit sharing

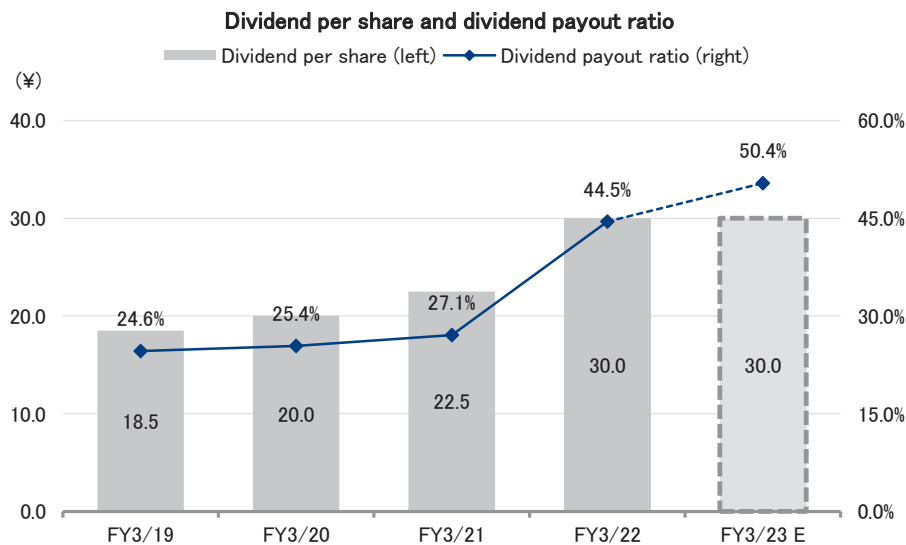
The Company is strengthening efforts to share profits with the aim of further enhancing corporate value. It plans to grow its business and improve business results to realize both returns to shareholders and contributions to a variety of stakeholders. Specifically, it is following a basic policy of making a comprehensive consideration of factors such as financial position and future business development each fiscal year and then considering ways to benefit stakeholders, such as investing in business growth and global environmental conservation. Also, in regard to dividends, it is aiming for a consolidated dividend payout ratio of 50%, taking care to provide stable and continuing returns while also carrying out share repurchases in an agile manner based on factors such as results trends.

Shareholder return policy

Aims for a consolidated dividend payout ratio of 50%. Plans to maintain the same dividend amount as FY3/22 in FY3/23

The Company's basic policy is to work toward strengthening shareholder return in the medium- to long-term by balancing stable dividends with opportunities for profit growth and by carrying out agile share repurchases based on capital efficiency. Under this policy, in FY3/22, it paid an annual dividend per share of ¥30.0 (interim: ¥10.0, year-end: ¥20.0), an increase of ¥7.5 compared to FY3/21, and its dividend payout ratio was 44.5%. This greatly exceeded the initial forecast (dividend per share of ¥20.0 and a dividend payout ratio of 30.8%), and it shows that shareholder return is a priority for the Company, which is commendable.

In its medium-term management plan, the Company has altered its basic policy on dividends to include the target of a consolidated dividend payout ratio of 50%. Accordingly, for FY3/23 it plans to pay a dividend per share of ¥30.0 (interim: ¥15.0, year-end: ¥15.0), unchanged from the amount in FY3/22, to realize a dividend payout ratio of 50.4%. However, the Company's forecasts give a conservative impression and if it is able stabilize the situation regarding materials, it is possible that profits will exceed forecasts and the dividend will rise accordingly.



Note: Values have been retroactively adjusted to reflect a 1-to-2 stock split conducted on April 1, 2021.
 Source: Prepared by FISCO from the Company's financial results

The Company also offers a shareholder benefit scheme in order to further increase the appeal of investing in the Company and encourage more people to become shareholders. However, the benefits offered have changed following a 1-to-2 stock split conducted on April 1, 2021. The specifics are as follows. On a set date of right allotment, shareholders holding at least 100 shares up to 999 shares will receive a ¥500 QUO Card and shareholders holding 1,000 or more shares will receive a ¥1,000 QUO Card. Furthermore, shareholders who have held shares continuously for over a year will also receive a benefit. Shareholders with at least 200 shares but no more than 1,999 will receive three kilograms of newly harvested Koshihikari rice grown in Uonuma, Niigata Prefecture, and shareholders with 2,000 or more shares will receive five kilograms of the same rice.

Shareholder return policy

Shareholder benefit scheme

Shares held	Length of continuous holding	Benefit	Delivery period
100-999	N/A	¥500 QUO Card	Scheduled for June each year
1,000+	N/A	¥1,000 QUO Card	
200-1,999	At least one year	3 kg of new Koshihikari rice from Uonuma, Niigata Prefecture	Scheduled for November each year
2,000+	At least one year	5 kg of new Koshihikari rice from Uonuma, Niigata Prefecture	

Note: Length of continuous holding of at least one year refers to shareholders who have been entered into the shareholder register at least three consecutive times. These entries are made on the final days of March and September each year.

Source: Prepared by FISCO from the Company's materials.



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