COMPANY RESEARCH AND ANALYSIS REPORT

# Ainavo Holdings

## 7539

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FISCO Ltd. Analyst
**Noboru Terashima**

FISCO Ltd.
http://www.fisco.co.jp

# Index

# Summary

## Mid-sized home equipment and exterior installation company; well within reach of the medium-term business plan goal (¥1,900mn in FY9/19 operating profit)

Ainavo Holdings <7539> (hereafter, also “the Company”) is a pure holding company with three consolidated subsidiaries and one non-consolidated subsidiary. Its main businesses are installations of tile, siding, and other exterior materials, installations of kitchens and various water-related equipment, and sales of building materials and home equipment. We think it is a unique company in offering a combination of installations and building materials and home equipment wholesale businesses. While the Company primarily supplies these services to smaller general contractors and building firms, it also receives installation orders from major general contractors. Strict fund collection management and project progress management have enabled the Company to accumulate abundant net cash (cash/deposits – loans) totaling ¥8,605mn (as of end-2Q FY9/17) and cultivate a robust balance sheet.

**1. Operating profit increased 26.3% YoY on higher sales and improved gross profit in 2Q FY9/17**

The Company reported ¥32,491mn in net sales (+3.7% YoY), ¥1,468mn in operating profit (+26.3%), ¥1,567mn in recurring profit (+19.5%), and ¥978mn in quarterly net profit attributable to parent owners (+3.0%) in 2Q FY9/17. Operating profit climbed sharply on higher sales, a 0.3pp rise in gross profit, and a 0.7% decline in SG&A expenses. However, net income only increased 3.0% due to higher corporate taxes and other costs.

**2. Full-year forecast unchanged from the period-start stance even with upbeat 1H results; likely to raise targets**

The Company forecasts ¥63,700mn in net sales (+4.9%), ¥1,740mn in operating profit (+4.8%), ¥1,890mn in recurring profit (-0.3%), and ¥1,130mn in net profit attributable to parent owned (-1.8%) in FY9/17. It retained period-start levels because of the possibility of issues. However, we think it is likely to raise targets due to the absence of major concerns thus far and upbeat 1H results. The standalone homes business, a key strength, should fuel earnings momentum. By segment, standalone homes, where the Company is successful, is expected to be the driving force for results.

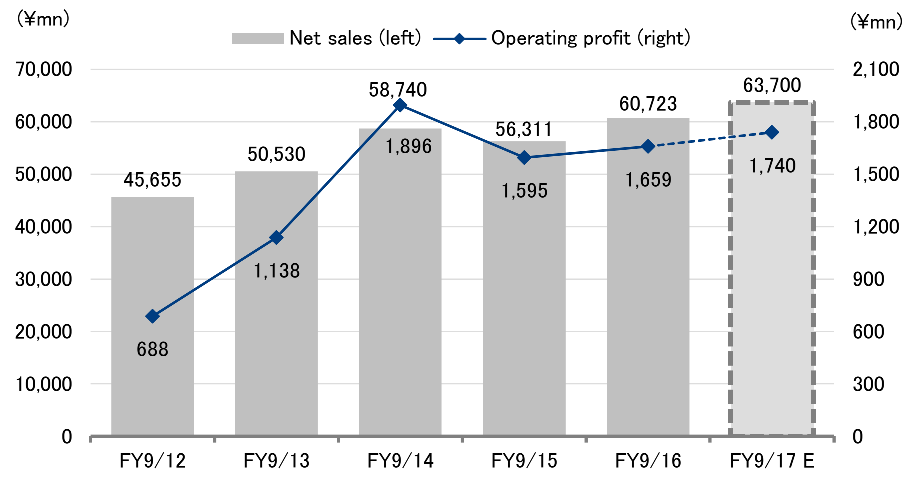
**3. Well within reach of the medium-term plan goal (¥1,900mn in FY9/19 operating profit)**

The Company announced a new medium-term business plan that lasts through FY9/19 with a primary theme of maximizing group synergies and goals of ¥70,000mn in net sales, ¥1,900mn in operating profit, and a 2.7% operating margin. We think it is well within reach of these goals and it might realize them ahead of time. While the Company’s shareholder return policy targets a 30% dividend payout ratio, the FY9/17 ratio works out to 26.6% using the current forecast. This suggests a possibility of a dividend hike depending on earnings.

**Key Points**

- Main businesses are exterior and home equipment installations and building materials and home equipment sales; possesses a sturdy financial base thanks to reinforced management
- Likely to raise results and the dividend target in FY9/17
- Well within reach of the medium-term business plan goal (¥1,900mn in FY9/19 operating profit)

Results trends




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

# Company profile

## Pure holding company with four subsidiaries; main businesses are exterior and home equipment installations and building materials and home equipment sales

### 1. Company profile

Ainavo Holdings is a pure holding company with three consolidated subsidiaries and one non-consolidated subsidiary. Its main businesses are installation of tile, siding, and other exterior materials, installation of kitchens, water-related equipment, and other home equipment, and sales of building materials and home equipment. The Company is unique in its combination of installations and wholesale supply of building materials and home equipment.

### 2. History

The company traces its roots to Abe Umekichi Shoten, which was founded in 1924 by Umekichi Abe, a bricklayer and grandfather of current representative director and president Kazunari Abe. It shifted the business to tile installations after the war as demand moved to tiles with a brick-feel amid steel-reinforced concrete becoming the mainstream building technique. It ramped up wholesale business with the establishment of Sanwa Shokai in 1961 in response to rapid growth in tile demand during Japan's advanced growth phase. After the collapse of the bubble economy, the company expanded the presence of home equipment business amid contraction of tile demand owing to a decline in home starts volume and changes in building techniques. Installations have risen as a ratio of overall business recently, and the company has been expanding installations of siding exterior and water-related home equipment as well as wholesale business for various building materials and home equipment, in addition to tile installations. It registered as an OTC stock with the Japan Securities Dealers Association in 1997 and is currently listed on the JASDAQ market following the merger of the JASDAQ Securities Exchange and Osaka Securities Exchange. It transitioned to a holding-company format and changed its name to Ainavo Holdings in 2013.

History

| Year | Main company events |
|---|---|
| 1924 | Established Abe Umekichi Shoten |
| 1961 | Established Sanwa Shokai |
| 1968 | Renamed Sanwa Shokai as Sanwa Shoji |
| 1987 | Renamed Sanwa Shoji as Avelco |
| 1997 | Registered as an OTC stock with the Japan Securities Dealers Association |
| 2010 | Listed on the JASDAQ market following the merger of the JASDAQ Securities Exchange and Osaka Securities Exchange |
| 2013 | Transitioned to a holding-company format and renamed itself as Ainavo Holdings |
| 2014 | Opened a showroom in Shinsaibashi (Osaka) |

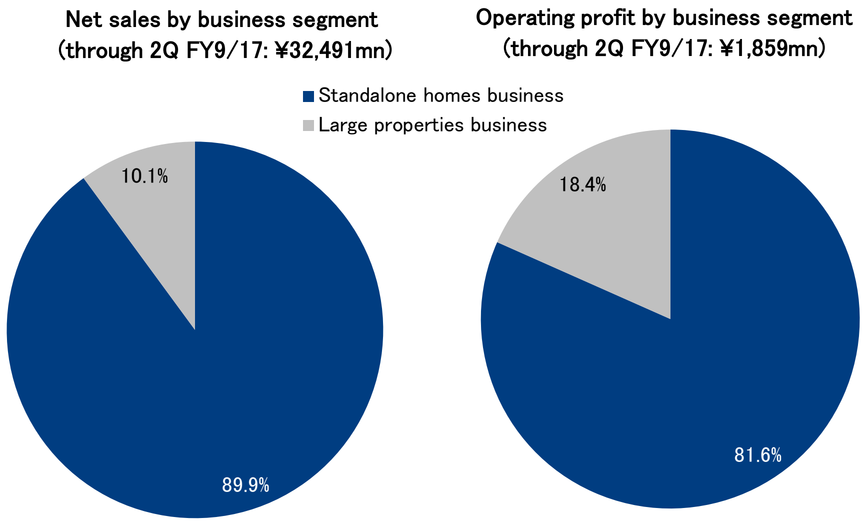
Source: Prepared by FISCO from the Company website

# Business overview

## Mainly installs tile, siding, and other exterior materials and home equipment; possesses a sturdy financial base thanks to reinforced management

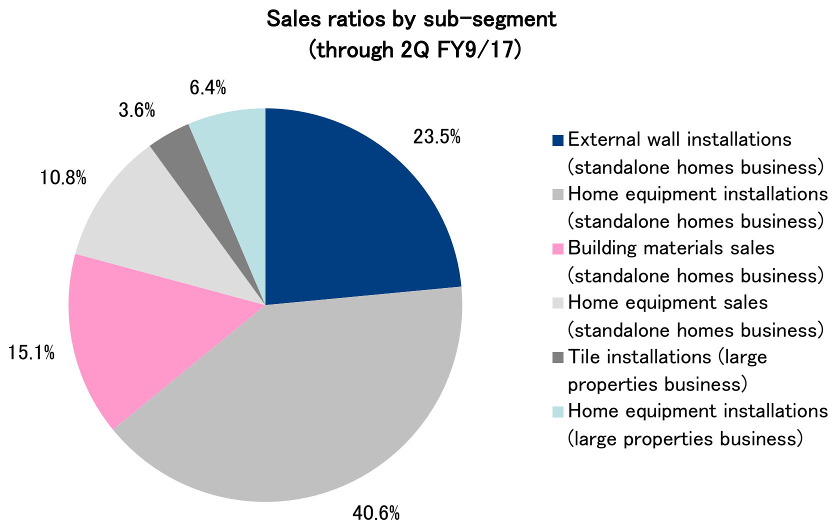
### 1. Description of business

Ainavo Holdings, a pure holding company, has three consolidated subsidiaries and one non-consolidated subsidiary in its group as of the end of March 2017. The company's business segments are standalone homes and large properties, and segment results through 2Q FY9/17 were ¥29,215mn for standalone homes (89.9% of overall sales) and ¥3,275mn for large properties (10.1%) in sales and ¥1,517mn and ¥341mn respectively in operating profit. However, the Company simply splits these segments by the relative size of customers (in terms of orders value) and actual content of business activities is the same. The former primarily covers installations for ordinary homes with orders obtained from smaller general contractors and ordinary building firms, while the latter mainly reflects orders from large general contractors and other major customers.




Note: Segment operating profit prior to companywide adjustments
Source: Prepared by FISCO from the Company's financial results

The standalone homes business breaks down further into sub-segments of exterior wall installations, home equipment installations, building materials and related products sales, and home equipment sales, and the large properties business consists of tile installations and home equipment installations. Sub-segment shares of overall sales (through 2Q FY9/17) as shown below are 23.5% for exterior wall installations, 40.6% for home equipment installations, 15.1% for building materials sales, and 10.8% for home equipment sales under the large standalone homes business and 3.6% for tile installations and 6.4% for home equipment installations under the large properties business.




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

### 2. Review of segments and sub-segments

#### (1) Standalone homes business

These orders primarily come from local smaller general contractors and builders and home manufacturers and related builders.* The Company does not receive many orders directly from the party conducting the project.

* Sales of tile materials and home equipment related to installation projects are booked under the respective installation segments.

#### a) Exterior wall installations

This business handles installations of interior and exterior tiles, floor tiles, and exteriors for ordinary homes, small condominiums, and stores. It supports not only tiles, but also sidings and other materials.

#### b) Home equipment installations

This business covers renovation installations (including kitchens as well as bath, toilet, and other water-related systems) and solar power generation system installations. While orders are fundamentally separate from exterior wall installations, they are received jointly in some cases. The Company is one of the industry's largest firms for bathroom installations with roughly 20,000 projects per year.

#### c) Building materials sales

This sub-segment handles wholesale transactions for various building materials used in ordinary homes, stores, and smaller condominiums. Tile building material sales volume is relatively large. Its primary sales destinations are tile installers and other specialty installation firms.

#### d) Home equipment sales

The Company sells home equipment to specialty installers, such as equipment suppliers and renovation firms.

#### (2) Large properties business

Business content is the same as the standalone homes business, but the Company books installations at large properties (buildings, condominiums, and others) for major general contractors in this segment. It receives a relatively large amount of orders from Obayashi <1802>, Konoike, and Haseko Corporation <1808>.

#### a) Tile installations

Interior and exterior tiles, floor tiles, stone material installations

#### b) Home equipment installations

Kitchens and other home equipment and air-conditioning equipment installations mainly for buildings and condominium buildings.

### 3. Main procurement and sales counterparts

The Company has roughly 7,000 customers, including major general contractors. Collection of accounts receivables is a key point in business operations, as explained below, because these customers are not always active and value per project varies significantly from a few million yen to over ¥100mn.

LIXIL Group <5938> is the primary procurement source for construction materials and home equipment, and the Company also purchases extensively from TOTO <5332>, Rinnai <5947>, Cleanup <7955>, and Daiken <7905>.

While the Company has about 2,000 subcontractors (large and small) handling projects, roughly half of the subcontractors work exclusively with the Company and the two sides sustain longstanding trust relationships thanks to support from the insurance framework described below.

#### 4. Competition, features, and strengths

Many companies are involved in exterior wall installations or selling building materials and home equipment, and the Company faces numerous rivals in its various areas of business. While it is not easy to find a clear rival as an overall business, the most likely competitors are Koizumi and Watanabe Pipe. However, rivals are declining for exterior wall installations due to the downward trend in the number of contractors in recent years. The Company promotes differentiation with rivals in the current environment leveraging the following features.

One of the Company's unique features is the comprehensive skills training center where it provides training in highly specialized skills for its numerous subcontractors. The Company is capable of supporting a variety of project types because it implements training. The skills center also inspects whether project work is taking place properly at various sites once every half year and reduces discrepancies in completed work due to individual differences through this process.

Another feature is the role of its own insurance program. The Company charges subcontractors 0.2% of transaction value and pools the funds in a cooperative association for use to cover income for one week if a subcontractor (worker) is unable to work due to an accident. This program strengthens the trust relationship between the Company and subcontractors and also boosts the retention rate for skilled workers and precision of finished work.

While it is normal for companies to implement sales management, cost management, and project process management, the Company also carefully conducts billing management, deposit management, and uncollected fund management. Specifically, it manages procurement and sales for each project on an individual-line basis, even with small amounts, and applies the management (checks) to not only the income statement, but also the balance sheet. The ability to assess this type of balance-sheet management while monitoring project progress is important and not simple. There have been numerous cases in recent years of other firms in the business of selling building materials entering the installations business, though many rivals later exit the installations portion due to the difficulty (inefficiency) of unpaid funds management. This aspect serves as a "hidden barrier to entry," and the Company's ability to manage it is an important strength. These efforts have enabled the Company to accumulate abundant net cash (cash/deposits – loans) totaling ¥8,605mn (26.2% of gross asset value; as of end-2Q FY9/17) and cultivate robust finances.

# Results trends

## Operating profit increased sharply on higher sales and improved gross profit in 1H FY9/17

1. Results through 2Q FY9/17

(1) Status of profit and loss

The Company reported ¥32,491mn in net sales (+3.7% YoY), ¥1,468mn in operating profit (+26.3%), ¥1,567mn in recurring profit (+19.5%), and ¥978mn in net profit attributable to parent owners (+3.0%) in 1H FY9/17. Operating profit climbed sharply on higher sales led by growth in mainstay exterior and home equipment installations, a 0.3pp rise in gross profit, and a 0.7% decline in SG&A expenses. However, net profit only increased 3.0% due to higher corporate taxes and other costs.

The ¥305mn YoY increase in 2Q FY9/17 operating profit reflected boosts of ¥163mn from higher sales, ¥85mn from non-recurrence of a provision to an installation losses allowance booked in the previous year, ¥35mn from improvement in gross profit (0.3pp), and ¥23mn from lower SG&A expenses, according to the analysis of operating profit change factors. Decline in personnel costs, which stemmed from not being able to sufficiently add personnel to offset departures, was the primary source of lower SG&A expenses.

Overview of results through 2Q FY9/17

(¥mn)

| | 2Q FY9/16 | | 2Q FY9/17 | | |
|---|---|---|---|---|---|
| | Value | Share of total value | Results | Share of total value | YoY change |
| Net sales | 31,337 | 100.0% | 32,491 | 100.0% | 3.7% |
| Gross profit | 4,402 | 14.1% | 4,687 | 14.4% | 6.5% |
| SG&A expenses | 3,240 | 10.3% | 3,218 | 9.9% | -0.7% |
| Operating profit | 1,162 | 3.7% | 1,468 | 4.5% | 26.3% |
| Recurring profit | 1,312 | 4.2% | 1,567 | 4.8% | 19.5% |
| Quarterly net profit attributable to parent shareholders | 950 | 3.0% | 978 | 3.0% | 3.0% |

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

(2) Status by business segment

Below we review trends by segments and sub-segments.

a) Standalone homes business

Standalone homes business booked ¥29,215mn in sales (+4.6% YoY) and a ¥1,517mn segment profit (+14.3%). By sub-segment, sales maintained upward trends in exterior installations to ¥7,635mn (+8.1%) and home equipment installations to ¥13,183mn (+6.9%), though weakened in building material sales to ¥4,890mn (-0.8%) and home equipment sales to ¥3,505mn (-3.1%).

Mainstay exterior and home equipment installation businesses steadily expanded with support from recruitment of new customers. While building material and home equipment sales fell, the declines were minor and are not a serious concern. In home equipment, we think sales should be assessed together with installations because equipment sales are often included in the installation value. Combined revenue from home equipment installations and sales increased 4.6% YoY in 1H. Segment profit strengthened on higher sales.

b) Large properties business

Large properties business recorded ¥3,275mn in sales (-3.5% YoY) and ¥341mn in segment profit (+67.8%). Tile installations were down by 18.3% YoY to ¥1,183mn because of fewer completions for condominiums, the main market, and a lull in some projects. Home equipment, meanwhile, sustained sales growth with a 7.6% gain to ¥2,091mn as building air-conditioner and renovation projects proceeded in line with the plan. Profit climbed sharply on non-recurrence of ¥85mn in re-installation costs related to a defective project from the previous year. Segment profit was also higher even without this factor.

Results by segment

(¥mn)

| | 2Q FY9/16 | | 2Q FY9/17 | | | |
|---|---|---|---|---|---|---|
| | Value | Share of total value | Value | Share of total value | Change in value | Change rate |
| Net sales | 31,337 | 100.0% | 32,491 | 100.0% | 1,153 | 3.7% |
| Standalone homes business | 27,943 | 89.2% | 29,215 | 89.9% | 1,272 | 4.6% |
| Exterior wall installations | 7,064 | 22.5% | 7,635 | 23.5% | 571 | 8.1% |
| Home equipment installations | 12,330 | 39.3% | 13,183 | 40.6% | 853 | 6.9% |
| Building materials sales | 4,929 | 15.7% | 4,890 | 15.1% | -38 | -0.8% |
| Home equipment sales | 3,619 | 11.5% | 3,505 | 10.8% | -113 | -3.1% |
| Large properties business | 3,394 | 10.8% | 3,275 | 10.1% | -118 | -3.5% |
| Tile installations | 1,449 | 4.6% | 1,183 | 3.6% | -265 | -18.3% |
| Home equipment installations | 1,944 | 6.2% | 2,091 | 6.4% | 147 | 7.6% |
| Operating profit | 1,162 | 3.7% | 1,468 | 4.5% | 305 | 26.3% |
| Standalone homes business | 1,327 | - | 1,517 | - | 189 | 14.3% |
| Large properties business | 203 | - | 341 | - | 138 | 67.8% |
| (Adjustments) | -368 | - | -390 | - | - | - |

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

(3) Update on progress with priority issues

Below we review progress in areas that the Company has earmarked as "priority issues."

Progress with priority issues

(¥mn)

| | Siding | Siding pre-cut (buildings) | Lumber building materials | Sashes | |
|---|---|---|---|---|---|
| | | | | (excluding Tokyo Sash) | (including Tokyo Sash) |
| 2Q FY9/16 | 1,241 | - | 736 | 451 | 685 |
| 2Q FY9/17 | 1,392 | 264 | 645 | 447 | 988 |
| YoY | 12.1% | - | -12.3% | -0.9% | 44.3% |
| FY9/17 targets | 3,150 | 720 | 1,840 | 1,300 | 2,840 |
| Progress rate | 44.2% | 36.7% | 35.1% | 34.4% | 34.8% |

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

a) Siding

Sales value increased by a healthy 12.1% YoY pace to ¥1,392mn, but this appears to have missed the internal goal (+20%). While the Company has many projects, installations have not been keeping up and it is important to proceed efficiently.

b) Siding pre-cuts

This building method involves pre-cutting materials at a factory and just installing at the site. The Company has been actively utilizing it since FY9/17. Progress toward the full-year target (building volume) is low, though this is just an internal goal and should not have a major impact on earnings.

**c) Lumber building materials**

Sales dropped 12.3% YoY to ¥645mn. This business is slumping and trails the full-year target pace. Logistic bottlenecks appear to be interfering with business, rather than issues with sales capabilities. The Company needs to make reforms that incorporate logistics.

**d) Sashes**

Sales including Tokyo Sash (which excels at larger sashes) rose by a robust 44.3% YoY to ¥988mn, but only reached 34.8% of the full-year target. Furthermore, sales excluding Tokyo Sash eased 0.9% to ¥447mn and were only at 34.4% of the full-year target. Reasons for weakness include tough competition in the industry due to the presence of many specialty firms and inadequate support for detailed customer requests because the Company does not have its own assembly plant.

Progress toward full-year goals in priority issue areas has been modestly lagging as explained above. However, these are just internal goals set by the Company and the shortfalls are unlikely to have an immediate major impact on the full-year outlook.

## Sturdy financial base with surplus net cash about ¥8,600mn

### 2. Financial condition

We review financial conditions as of end-2Q FY9/17. Current assets totaled ¥24,860mn (up ¥1,634mn from the end of FY9/16). Key item trends were cash and deposits up ¥825mn, notes receivable and unpaid funds on finished projects up ¥1,034mn, and unfinished project spending up ¥28mn. Fixed assets totaled ¥8,010mn (up ¥271mn), including tangible fixed assets at ¥5,700mn (down ¥37mn), intangible fixed assets at ¥707mn (up ¥98mn), and investments and other assets at ¥1,602mn (down ¥210mn). Total assets hence climbed ¥1,906mn to ¥32,871mn.

Current liabilities totaled ¥13,579mn (up ¥1,021mn) with the main changes as increases of ¥528mn for notes payables and unpaid project costs and ¥509mn for unpaid factoring. Fixed liabilities declined ¥3mn to ¥1,370mn. As a result, total liabilities were ¥14,949mn (up ¥1,017mn. Net assets amounted to ¥17,921mn (up ¥889mn), mainly on a ¥848mn gain in surplus profit from booking quarterly net profit attributable to parent shareholders.

The Company possesses a sturdy financial base with extensive surplus net cash (cash and deposits – loans) at ¥8,605mn as of end-2Q FY9/17 with ¥9,349mn in cash and deposits versus ¥743mn in total loans (long-term + short-term loans).

Balance sheet

(¥mn)

| | End-FY9/16 | End-2Q FY9/17 | Change in value |
|---|---|---|---|
| Cash and deposits | 8,523 | 9,349 | 825 |
| Notes receivables and finished project unpaid funds | 11,778 | 12,813 | 1,034 |
| Unfinished project spending | 1,546 | 1,575 | 28 |
| Current assets (total) | 23,226 | 24,860 | 1,634 |
| Tangible fixed assets | 5,737 | 5,700 | -37 |
| Intangible fixed assets | 608 | 707 | 98 |
| Goodwill | 408 | 385 | -22 |
| Investments and other assets | 1,392 | 1,602 | 210 |
| Fixed assets (total) | 7,738 | 8,010 | 271 |
| Assets (total) | 30,964 | 32,871 | 1,906 |
| Notes payables and unpaid amounts | 6,454 | 6,983 | 528 |
| Unpaid factoring | 3,323 | 3,833 | 509 |
| Current liabilities (total) | 12,557 | 13,579 | 1,021 |
| Long-term loans | 238 | 230 | -8 |
| Fixed liabilities (total) | 1,374 | 1,370 | -3 |
| Liabilities (total) | 13,931 | 14,949 | 1,017 |
| Net assets | 17,032 | 17,921 | 889 |

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

### 3. Cash flow situation

We review the cash flow situation as of end-2Q FY9/17. Cash flow from operating activities totaled a net surplus of ¥913mn (vs. a net surplus of ¥362mn a year ago). Main income sources were ¥1,561mn in quarterly net profit prior to taxes and other adjustments and ¥1,076mn from a rise in procurement liabilities, while main outflows were ¥1,345mn from a rise in sales credits. Cash flow from investing activities totaled a net deficit of ¥65mn (vs. a net deficit of ¥572mn). Main outflows were ¥300mn in income from fixed-term deposit returns and ¥186mn from acquisition of investment securities (net). Cash flow from financing activities totaled a net surplus of ¥135mn (vs. a net deficit of ¥472mn), mainly due to outflows of ¥300mn from a net increase in short-term loans and ¥150mn from dividend payments. These trends resulted in an increase of ¥983mn in cash and cash equivalents during the period to an end-quarter balance of ¥9,349mn.

Cash flow statement

(¥mn)

| | 2Q FY9/16 | 2Q FY9/17 |
|---|---|---|
| Cash flow from operating activities | 362 | 913 |
| Quarterly net profit prior to taxes and other adjustments | 1,295 | 1,561 |
| Change in sales credits (- is an increase) | -1,591 | -1,345 |
| Change in inventories (- is an increase) | -581 | 110 |
| Change in procurement liabilities (- is a decline) | 1,626 | 1,076 |
| Cash flow from investing activities | -572 | -65 |
| Income from fixed-term deposit returns | - | 300 |
| Outflow from deposits to fixed-term deposits | -300 | - |
| Acquisition of investment securities (net) | -150 | -186 |
| Cash flow from financing activities | -472 | 135 |
| Net change in short-term loans (- is a decline) | -284 | 300 |
| Dividend payments | -173 | -150 |
| Change in cash and cash equivalents (- is a decline) | -683 | 983 |
| Quarter-end cash and cash equivalents balance | 7,088 | 9,349 |

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

# Business outlook

## Full-year forecast unchanged from the period-start stance; likely to raise targets

The Company expect ¥63,700mn in net sales (+4.9%), ¥1,740mn in operating profit (+4.8%), ¥1,890mn in recurring profit (-0.3%), and ¥1,130mn in net profit attributable to parent owned (-1.8%) in FY9/17. It retained period-start levels.

We think the Company is likely to exceed this earnings forecast and would not be surprised by an upward revision of full-year targets because it already posted ¥1,468mn in operating profit in 1H. While the Company explained that it “retained existing forecast because of uncertainty in the housing market and tough outlooks presented by many major home builders,” we believe it is likely to raise targets due to the absence of major concerns thus far.

**Overview of the FY9/17 forecast**

(¥mn)

| | FY9/16 | | FY9/17 (E) | | |
|---|---|---|---|---|---|
| | Value | Share of total value | Value | Share of total value | YoY change |
| Net sales | 60,723 | 100.0% | 63,700 | 100.0% | 4.9% |
| Standalone homes business | 54,223 | 89.3% | 57,250 | 89.9% | 5.6% |
| Large properties business | 6,499 | 10.7% | 6,450 | 10.1% | -0.8% |
| Operating profit | 1,659 | 2.7% | 1,740 | 2.7% | 4.8% |
| Recurring profit | 1,895 | 3.1% | 1,890 | 3.0% | -0.3% |
| Net profit attributable to parent shareholders | 1,151 | 1.9% | 1,130 | 1.8% | -1.8% |

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

The Company’s segment sales targets are ¥57,250mn for the standalone homes business (+5.6% YoY) and ¥6,450mn for the large properties business (-0.8%). It expect ¥1,420mn in operating profit (vs. ¥1,233mn in the previous year) at core subsidiary Avelco Co., Ltd. While it forecasts declines in operating profit to ¥120mn at INTELGROW Corporation (vs. ¥135mn) and ¥70mn at OnchoGiken Co. Ltd. (vs. ¥134mn), these trends are not tied to particular problems or concerns and simply reflect a conservative stance after relatively upbeat results in the previous fiscal year.

Targets for priority issues (products) are siding at ¥3,150mn (+32.5%), lumber building materials at ¥1,840mn (+28.4%), and sashes (including Tokyo Sash) at ¥2,840mn (+77.3%).

# Medium- to long-term growth strategy

## Well within reach of the medium-term business plan goal (¥1,900mn in FY9/19 operating profit)

The Company announced a new medium-term business plan that lasts through FY9/19, following fulfillment of the previous medium-term plan in FY9/16, with numerical goals of ¥70,000mn in sales, ¥1,900mn in operating profit, and a 2.7% operating margin. We expect fulfillment of the medium-term plan goal because the Company is already targeting ¥1,700mn in FY9/17 operating profit and is likely to raise this outlook.

The Company maintains the existing plan (from the initial announcement) to pursue the following five priority issues in order to realize this goal.

**(1) Build new business pillars to deal with changes in the market environment**
Promote ZEH (solar panels, exterior, and sashes) responses at group companies

**(2) Quickly realize group synergies**
Regional expansion strategy to address shrinkage of the domestic market

**(3) Conduct strategic decision-making in group management**
Reorganization, efficient investments, and dealing with common group issues

**(4) Enhance support capabilities for group companies**
Improved responsiveness to national policies and better business efficiency (develop a new core system and leverage Avelco Vietnam)

**(5) Strategically utilize human resources**
Recruit and train human resources and promote horizontal interactions

# Shareholder return policy

## Targets 30% dividend payout, strong likelihood of a dividend hike in FY9/17 depending on earnings

The Company fundamentally aims for a 30% dividend payout ratio as its shareholder return policy. The FY9/17 ratio, meanwhile, works out to 26.6% using current earnings forecast and the ¥26 target. If earnings overshoot as explained above, the payout ratio would drop further and thereby increase the possibility of a dividend hike.

## Disclaimer