

COMPANY RESEARCH AND ANALYSIS REPORT

Daiki Axis Co., Ltd.

4245

Tokyo Stock Exchange First Section

18-Apr.-2018

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FISCO Ltd.

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

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Summary

Realizing SDGs advocated by the United Nations through “creation of water-related infrastructure”

Daiki Axis Co., Ltd. <4245> has a half-century track record in water treatment business. The supply chain of water infrastructure business consists of materials, parts, and equipment manufacturing, equipment design, assembly, and installation (operation), and business operation, maintenance, and management (water sales). Global water majors cover all of these processes, but address large-scale facilities. Japan has many players, meanwhile, with specialization in individual areas. Daiki Axis is unique with its integration operations that handle all businesses in the supply chain for household wastewater treatment, industrial wastewater treatment, and public water purification with smaller-scale targets.

1. Promotes realization of SDGs in Asia and Africa

The 193 member countries at the United Nations Summit in September 2015 unanimously adopted international sustainable development goals (SDGs) for the period from 2016 to 2030 listed in the “2030 Agenda for Sustainable Development.” In December 2017, Prime Minister Abe held the Fourth SDGs Promotion Headquarters meeting at the Prime Minister’s Office and voiced strong support for promotion of SDGs along with all cabinet members. Japan issued the “SDGs Action Plan 2018” that contains direction and main initiatives aimed at promoting Japan’s “SDGs model” to the world. The SDGs are 17 comprehensive goals and 169 specific targets to achieve these goals. The sixth goal’s “Clean Water and Sanitation: Safe water and sanitation worldwide; Ensure availability and sustainable management of water and sanitation for all” matches the “creation of water-related infrastructure” promoted by Daiki Axis.

The Ministry of the Environment outlined a policy of providing Japanese technologies to developing countries and assistance to resolve environmental issues and resulting recruitment of business opportunities for Japanese companies in the “Fundamental Strategy for Overseas Deployment of Environmental Infrastructure” formulated in July 2017. It selected “wastewater treatment tanks” as one of the six focus areas and clarified assistance of overseas deployment of these tanks, including from mid-sized and smaller companies, to support public hygiene and water environment conservation in Southeast Asia. Emerging countries are strengthening laws related to prevention of water pollution, but lack sufficient monitoring and operational capabilities and are looking forward to contributions from Japan in building sustainable operations. Daiki Axis is highly competitive in quality, cost, and delivery (QCD) because it fulfills stricter water treatment standards, develops products that meet the climate in regions where equipment is installed, curtails manufacturing costs and transportation expenses and supplies products with shorter delivery times through local production. In FY12/18, it plans to begin local production of wastewater treatment tanks in China and India, which have the world’s No.1 and No.2 populations respectively and low wastewater treatment rates, through joint ventures with local companies and establishment of new subsidiaries. Business scope has broadened from Indonesia, where it built the first production site, to India, Myanmar, Sri Lanka, and Kenya (Africa).

2. Posted all-time high net sales and ordinary income for a sixth straight period in FY12/17

Daiki Axis reported higher sales and profits in FY12/17 with a 2.3% year on year (YoY) rise in net sales and an 18.2% increase in ordinary income. Operating and ordinary income were roughly on track with initial forecast. Net sales and ordinary income reached all-time highs in six straight years since Daiki Axis started compiling consolidated results. The FY12/18 outlook calls for ¥35,600mn in net sales (+6.1% YoY) and ¥1,500mn in ordinary profit (+11.7%), the final fiscal-year goals in the three-year medium-term business plan.

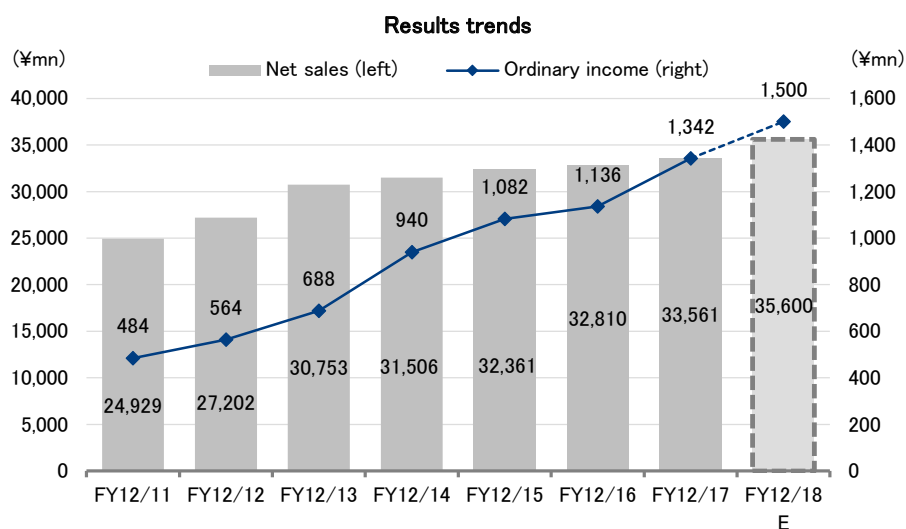
Summary

3. Management geared toward ESG

Daiki Axis clarified ESG initiatives in 2017. In environment, it targets lower CO2 emissions and acquisition of international standard approvals in water-related infrastructure and environmental management systems. The CO2 reduction effort involves biodiesel fuel business as well as compact wind power electric equipment business and solar power sales business that use renewable energy sources. Water-related infrastructure, the founding business, seeks to improve water environments on a global scale with products and services. In society, Daiki Axis received the “Second Ehime Furusato Environmental Award” in 2016 for the biodiesel fuel business. It obtained “kurumin approval” as a “child-rearing support company” in 2015 under diversity. It promotes no-overtime days in work style reforms. In governance, Daiki Axis appointed two outside directors and two outside auditors to help in quick and efficient business operation, establishment and improvement of internal compliance operations, and ensuring transparency. Furthermore, it implements multiple briefings as venues for constructive dialogue with shareholders, investors, and others.

Key Points

- Opening new production sites in China and India for overseas business
- Starting sales of solar power generated by rooftop facilities at 100 DCM group stores
- Plans to raise the dividend again in FY12/18 after the stock split and dividend increase in FY12/17



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

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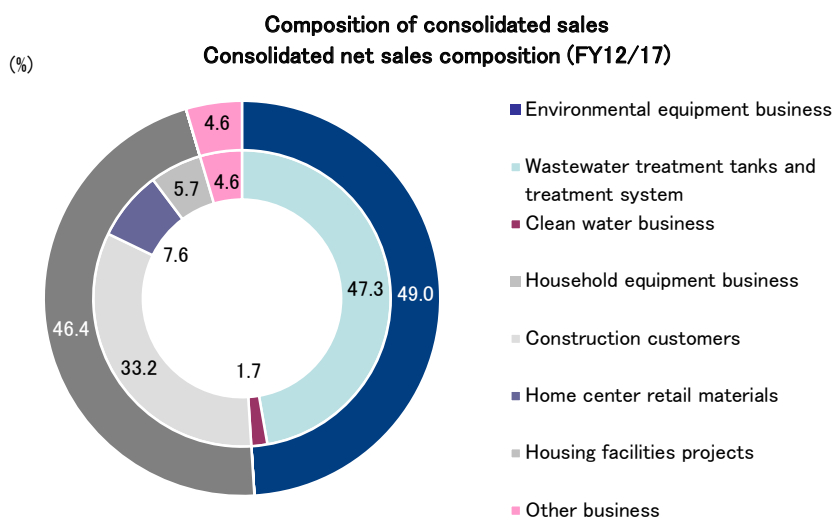
Company profile

Corporate slogan is “PROTECT By CHANGE”

1. Company profile

Daiki Axis employs a corporate slogan of “PROTECT By CHANGE” and aims to “Protect the environment and change the future.” It targets balanced growth in environmental equipment, household equipment, and other businesses as an environmental creation development model company. It listed shares on the Tokyo Stock Exchange’s Second Section (TSE-2) in December 2013 and switched to the First Section (TSE-1) in the next year. Daiki Axis has sustained upward trends in net sales and ordinary income since going public.

Business results in FY12/17 were ¥33,561mn in net sales and ¥1,342mn in ordinary income. Net sales composition by segment was environmental equipment at 49.0% (including wastewater treatment systems and wastewater treatment systems at 47.3% and clean water business at 1.7%), household equipment at 46.4% (including construction customers at 33.2%, home center retail materials at 7.6%, and housing facilities projects at 5.7%), and other business at 4.6%.



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

2. History

The company began as Ogame Shoji, which sold tiles and hygienic porcelain, in Matsuyama City (Ehime Prefecture) in 1958. It established predecessor Daiki Co., Ltd. in 1964. It started manufacturing aeration wastewater treatment tanks in 1969. Daiki, which entered the home center business in 1978, formed business alliances with peers Homac Co., Ltd. and Khama Co., Ltd. and decided to merge in 2003. While current DCM Holdings Co., Ltd. <3050> was established in 2006, Daiki had previously transferred non-home center businesses to Daiki Axis as the inheriting company. Capital ties between Daiki Axis and Daiki subsequently ended due to the management buyout (MBO) by current president Hiroshi Ogame and other executives that took the company independent, though transactions are continuing.

Daiki Axis was officially founded in 2005, but has designed, manufactured, installed, and maintained and managed various wastewater treatment systems over about half a century since the Daiki era when it completed the first fiber reinforced plastic (FRP) wastewater treatment tank in 1965. Household equipment business began handling TOTO products in 1971. It limits business scope to Kinki, Chugoku, and Shikoku areas and has become an important distributor for major residential facilities and equipment manufacturers. It also supplies home center retail materials to group companies under DCM Holdings and provides comprehensive store management services, including construction and cleaning of home center stores. In 2018, it will launch a solar power business that leases the rooftops of DCM group stores. The other business segment is expanding business scope to broader environment-related areas as a “development model company with emphasis on water and the environment.” Biodiesel fuel refining and sales business, which was started in 2002, received the Fifth Monozukuri Japan Prize (Shikoku Economic and Industry Bureau Head’s Award) in 2013. Daiki Axis also has compact wind-power generation and solar power sales businesses from M&As.

3. Group companies

Daiki Axis strengthened the environmental equipment business and entered new areas via M&As. Its group consists of 10 major subsidiaries (7 domestic and 3 overseas). During FY12/18, it plans to establish a joint venture for manufacturing wastewater treatment tanks in China and a new subsidiary to begin production in India.

Daiki Axis obtained environment equipment firms DAITEC Co., Ltd., Environmental Analysis Center Co., Ltd., and Daqi Environmental Protection Engineering (Dalian) Co., Ltd. from Daiki in 2005. It aims to bolster the business foundation in environmental equipment that offers sustainable growth potential with M&As and purchased TOBU Co., Ltd., which designs, installs, and sells water treatment facilities mainly in the Tokai area, in 2007. It acquired TOSETSU Co., Ltd., which handles maintenance and inspections of various water treatment facilities in the same area, in the following year. TOBU absorbed this subsidiary in January 2017. It purchased environmental plant business LEC Industries Co., Ltd. in 2011. Daiki Axis also acquired all shares of DA INVENT (located in Nagoya City, Aichi Prefecture) for ¥65mn, making it a subsidiary, in January 2018. This subsidiary holds multiple patents for high-temperature, high-pressure hydrothermal treatment and subcritical water reaction equipment. Its coverage of processes before and after water processing should contribute to expansion of group scope in environmental infrastructure business.

Outside of Japan, Daiki Axis acquired a local company that manufactures wastewater treatment tanks in Indonesia in 2013. It established a subsidiary in Singapore in 2016 with roles of selling activities for wastewater treatment tanks and other water treatment equipment in Southeast Asia and South Asia and conducting supervision activities for overseas subsidiaries. The 2018 plan targets establishment of a residential wastewater treatment tank site via a joint venture in China in April. Daiki Axis intends to handle this subsidiary as an equity-method entity. It also aims to create a subsidiary for production, sales, installation, and maintenance of wastewater treatment tanks in India in July. This entity should begin production of compact wastewater treatment tanks during 2018.

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Company profile

In other businesses, Daiki Axis acquired Sylphid Co., Ltd., which conducts R&D and sales and installation of compact wind-power equipment as a renewable energy business, in 2012. Its equipment utilizes a vertical axis format that is more suited to wind conditions in Japan than the horizontal axis format (propeller type) found in the US and Europe. It began selling 3kW-type products as an independent power source in 2016. It is developing a 10kW product, which aims for power sales by linking to the grid, and a compact 1kW product in order to meet various needs. Daiki Axis acquired civil works operator DAD Co., Ltd., which excels at the pipe jacking method, in March 2017, as a subsidiary due to the lack of a successor. It is targeting group synergies through utilization of DAD's extensive customer base with nationwide civil works and construction companies. This subsidiary has a stable income source from operation of power selling business with solar panels installed at six locations in the Matsuyama City area.

Group companies

Company name	Date	Format	Location	Business description
Environmental equipment business				
[Japan]				
DAITEC Co., Ltd.	2005/10	Transfer	Matsuyama City	Wastewater treatment tank and system equipment maintenance inspections and reform plan proposals
Environmental Analysis Center Co., Ltd.	2005/10	Transfer	Matsuyama City	Analyzes water quality, air, and soil as an environment measuring certification office
TOBU Co., Ltd.	2007/11	Acquisition	Nagoya City	Designs and installs various water treatment systems mainly in the Tokai area
LEC Industries Co., Ltd.	2011/12	Acquisition	Tokyo	Environmental plant business, ESCO business, and overseas water supply business
DA INVENT Co., Ltd.	2018/1	Acquisition	Nagoya City	Possesses subcritical water reaction equipment and other technology and implements environmental infrastructure business
Overseas				
Daqi Environmental Protection Engineering (Dalian) Co., Ltd.	2005/10	Transfer	China	Overseas site for design, installation, and sales of polluted water treatment equipment and recycling and filtration equipment
PT. Daiki Axis Indonesia	2013/10	Acquisition	Indonesia	Southeast Asian site for manufacturing wastewater treatment tanks
DAIKI AXIS SINGAPORE PTE.LTD.	2016/8	Established	Singapore	Water treatment sales activities and overseas subsidiary supervision
Lingzhi Daqi Johkaso (Jiangsu) Co., Ltd. (planned)	2018/3	Established	China	Site for manufacturing residential wastewater treatment tanks (joint venture)
DAIKI AXIS INDIA Private Limited (planned)	2018/7	Established	India	Manufacture, sell, install, and maintain and manage wastewater treatment tanks
Other businesses				
Sylphid Co., Ltd.	2012/4	Acquisition	Tokyo	R&D on compact wind power equipment and generator sales and installations
DAD Co., Ltd.	2017/3	Acquisition	Matsuyama City	Civil works projects using the pipe jacking method and solar power sales business

Source: Prepared by FISCO from Company materials

Business overview

Development company placing emphasis on water and the environment

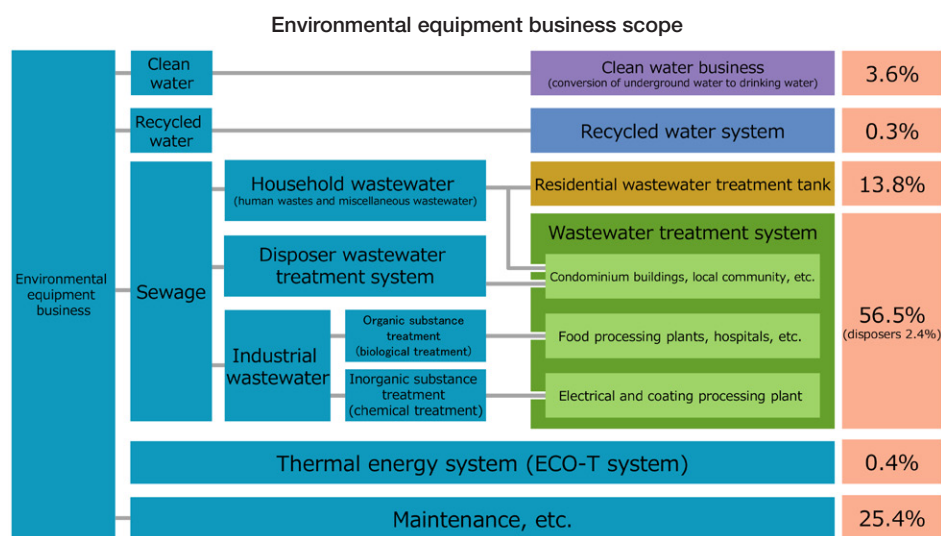
Daiki Axis has environmental equipment and household equipment as core businesses and positions the other business segment as the growth area. Operating margin is steadily climbing thanks to focus on the environmental equipment business where it can offer uniqueness, in contrast to household equipment that largely consists of wholesale transactions. In FY12/17 segment operating margin, environmental equipment at 8.3% was more than twice as high as household equipment at 3.7%. Other business, meanwhile, had been posting losses for many years due to the presence of new businesses, but it is maintaining profits now with contributions from new acquisitions.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Business overview

1. Environmental equipment business

The environmental equipment business handles from manufacturing and sales of plastic wastewater treatment tanks to design, installation, and maintenance of concrete large wastewater treatment facilities. It covers a wide range of applications from human waste and residential wastewater for individual homes to industrial wastewater and rural wastewater. In addition to wastewater treatment equipment, it has a clean water business that converts underground water to drinking water and wastewater recycling system for reuse of used clean water. It has built maintenance service operations as joint operations with subsidiaries. Consolidated segment sales totaled ¥16,445mn in FY12/17 with 96.4% in wastewater treatment tanks and wastewater treatment systems and 3.6% in clean water business.



Source: The Company's results briefing materials

(1) Household wastewater treatment tanks – Pioneering presence

Daiki Axis began development of wastewater treatment tanks in 1964 and has been a pioneering presence in this field, including having the industry's first JIS-approved plant for fiber-reinforced plastic (FRP) wastewater treatment tanks (obtained in 1976). It acquired ISO9001 approval in June 2006 as part of strengthening quality control operations. It was the first supplier in the industry to obtain an eco- mark certification with the XE model wastewater treatment tank in January 2014. Major homebuilders selected this product, and it is also exported. This product's success helped to improve profitability. Daiki Axis aims to be the industry leader in installation of wastewater treatment tanks with disposer (raw garbage grinder) support and disposer wastewater treatment systems as a strategic effort. Its products comply with standards defined by the Japan Sewage Works Association, and package approval of the disposer and wastewater treatment system is an advantage.

(2) Wastewater treatment systems – Strength in integrated operations including maintenance

Residential wastewater treatment tanks provide 13.8% of environmental equipment segment sales, while wastewater treatment systems, which handle treatment of wastewater for condominium buildings, villages, food processing plants, hospitals, and electric equipment and plating plants, are at 56.5%.

Business overview

An important strength is integrated operations covering design, production, installation, sales, and maintenance of wastewater processing facilities. Provision of maintenance services sustains contact with customers and leads orders for repairs and expansion projects. Knowledge of customer needs confirmed through on-site interaction is also fed back to R&D activities. Daiki Axis has maintenance operations with 24-hour monitoring and spot responses and other services that meet customer requirements handled by a dedicated division. It supports products designed and installed by the Daiki Axis group as well as equipment and facilities supplied by other companies. Maintenance sales rose 4.1% YoY to ¥4,182mn in FY12/17, which was 25.4% of environmental equipment sales.

(3) Logistics – Pursuing efficiency through business alliances

The sales network for environmental equipment covers major cities throughout Japan from Hokkaido in the north to Kagoshima in the south. Manufacturing takes place at four locations (Matsuyama and Tsushima works in Ehime prefecture, Shinshu works in Nagano prefecture, and Fukushima works in Fukushima prefecture) with shipments from the plant nearest to the delivery site. Additionally, Daiki Axis utilizes the network of DAIE INDUSTRY Co., Ltd, a business alliance partner since 2010, to improve operational efficiency. Daie Industry has five production sites with two in Aichi prefecture and one location each in Hokkaido, Oita, and Kagoshima prefectures. Both companies manufacture products using the counterpart's brand and conduct mutual supply. This makes it possible to ship products from manufacturing sites near the customer and lower logistics costs. Production formats include forecast-based output and order-based production and assembly.

(4) Clean water business

Clean water business, a new area in the environmental equipment business, is an ESCO service that provides steady supply of safe low-cost drinking water mainly to hospitals, large retail facilities, welfare facilities, and sports gyms. This service converts underground water to drinking water and reduces the cost of clean water by 10-30% compared to conventional drinking water. The usage method is exactly the same as clean water from public services with fees charged by usage volume. Daiki Axis owns the ESCO clean water facilities. It also installs a remote automated monitoring system that uses IT sensors for 24-hour, 365-day monitoring of facilities operating at customer locations from the headquarters office.

Characteristics of the clean water business (conversion of underground water to drinking water)

Overview	
Economical	· Dedicated water supply that provides safe and inexpensive drinking water by pumping up low-layer water flowing deeply under the ground
Stable supply volume	· Underground water is available even during dry periods and water restrictions and thus provides stable water volume
Safe water quality	· Supply quality water that removes bacteria and protozoa through a combination of membrane filtration and equipment suited to underwater quality
Lifeline	· Role as a lifeline when clean water supply cannot be delivered during disasters · Lifeline access is particularly important for hospitals
Monitoring operations	· 24-hour automated monitoring of the entire system, including residual chlorine concentration and membrane filter operation, from Daiki Axis headquarters over an NTT line

Source: Prepared by FISCO from Company materials

Daiki Axis reached 78 contracts cumulatively for ESCO service through the end of December 2017 including 21 hospitals (with emphasis on lifeline access), 13 welfare facilities, 13 large retail facilities, 11 sports gyms, and 11 food-processing plants. It hopes to realize horizontal deployment at large retail facilities, sports gyms, and others with national chain operations. While converting underground water to drinking water is not technologically difficult for Daiki Axis given its handling of treatment systems for industrial wastewater, inroads in the food-processing industry, which averts risk, was sluggish. Successful recruitment of customers in this segment, however, lifted trust in the water quality safety of its ESCO service.

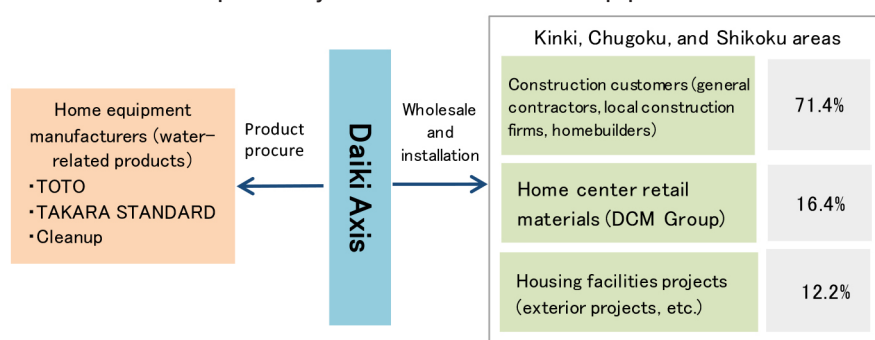
Business overview

Daiki Axis is targeting a top position in the industry with 100 total contracts and is also considering overseas business. Its ESCO business is unlikely to face tougher competition for the time being because the market is not large enough to attract major water treatment equipment manufacturers, such as EBARA CORPORATION <6361> and Kurita Water Industries Limited <6370>, and smaller companies lack corporate resilience, including capital resources.

2. Household equipment business

The household equipment business had a sales breakdown in FY12/17 of construction customers at 71.4%, home center retail materials at 16.4%, and housing facilities projects at 12.2%.

Sales composition by channel in the household equipment business



Source: Prepared by FISCO from Company materials

(1) Construction customers – Strong equipment wholesale business in its areas

Predecessor Daiki started as a "tile and hygienic porcelain store" at its founding in 1958 and has a multiple-decade track record in home equipment wholesale business. Daiki Axis sells system kitchens, toilets, bathroom units, and other water-related home equipment to general contractors, local construction firms, and homebuilders. It limits activity to Shikoku, where the headquarters is located, and Chugoku and Kinki on the Seto Inland Sea and generates strong sales results in these areas.

(2) Home center retail materials – Strengthening ties with the DCM Group

Daiki Axis is seeking to strengthen ties with the DCM Group, which operates Japan's largest home center network. It booked ¥4,660mn in sales to the Group in FY12/17, putting sales reliance at 13.9%. The business breakdown was 75.8% in household equipment and 24.1% in environmental equipment. Household equipment includes sales of kitchens, bath units, toilets, and other home goods, sales of professional materials to renovation companies, and store construction projects. Environmental equipment sales come from store wastewater treatment tank installations and maintenance and store management activities. Daiki Axis receives direct consignments from DCM Group for store construction projects. It originally had capital ties with DCM Group and maintains a healthy relationship as an independent company.

As environmental equipment business, Daiki Axis handles consignments for installation and maintenance of store wastewater treatment tanks at DCM Group stores as well as store management activities (cleaning, fire prevention, and electrical and other inspection duties). This business covered 840 stores as of May 2017. We expect Daiki Axis to not only supply products, but also steadily recruit store management and other business.

3. Other business

The other business segment reported ¥1,530mn in FY12/17 sales, doubling YoY. Sales breakdown was CreCla bottled water delivery business at 37.2%, biodiesel fuel business at 6.1%, compact wind-power equipment business at 1.0%, and civil works business newly added through the DAD acquisition at 55.8%. Operating income was just ¥13mn. While DAD contributed positively to earnings, inventory asset valuation losses associated with steep decline in product sales for the compact wind-power equipment business weighed on profits.

Results trends

All-time highs in net sales and ordinary income for a sixth straight year in FY12/17

1. Overview of FY12/17 results

Consolidated results in FY12/17 were ¥33,561mn in sales (+2.3% YoY), ¥1,143mn in operating income (+22.8%), ¥1,342mn in ordinary income (+18.2%), and ¥744mn in profit attributable to owners of parent (+14.8%). Ordinary income is higher than operating income due to booking purchase discounts (¥152mn) in non-operating income. Net sales and ordinary income set all-time highs in a sixth straight year since beginning consolidated statements. Net sales were 2.4% below the period-start target, but operating and ordinary incomes were in line with expectations.

Environmental equipment business recorded higher sales and profits at ¥16,445mn in sales (+3.3% YoY) and ¥1,356mn in operating income (+13.2%). Wastewater treatment tank and treatment system sales fell 8.2% YoY. Overseas sales rose 71.7% YoY to ¥1,366mn, though missed forecast by about 20%. A major project in China provided a strong sales lift. However, there was a delay in booking a large project in Indonesia. Maintenance sales increased 4.1% YoY as expected. Clean water business had an 8.6% increase in sales, despite the absence of acquisitions, thanks to recruitment of eight new contracts in the ESCO business. This raised cumulative volume at period-end to 78 contracts. Management booked ¥34mn in impairment losses due to the prospect of future income decline on diminished water quality and water volume at Oita and Miyagi prefecture sites. Household equipment business posted ¥15,584mn in sales (-3.6% YoY) and ¥578mn in operating income (+16.3%). Profit improved on lower sales thanks to a gain in profitability. The other business segment had ¥1,530mn in sales (+2.1x) and ¥13mn in operating income (-39.4% YoY). Sales climbed on the addition of civil works projects and power sales income. Earnings, however, stalled due to a lack of biodiesel plant sales and inventory asset impairment losses in the compact wind-power equipment business.

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Results trends

FY12/17 results

	FY12/16		FY12/17			YoY		Change versus forecasts
	Amount	Ratio to net sales	Forecast	Results	Ratio to net sales	Change	%	
Net sales	32,810	-	34,400	33,561	-	750	2.3%	-2.4%
Environmental equipment business	15,913	48.5%	18,016	16,445	49.0%	532	3.3%	-8.7%
Household equipment business	16,166	49.3%	15,581	15,584	46.4%	-581	-3.6%	0.0%
Other businesses	731	2.2%	802	1,530	4.6%	799	109.2%	90.8%
Gross profit	6,214	18.9%	6,796	6,558	19.5%	343	5.5%	-3.5%
Selling, general and administrative expenses	5,283	16.1%	5,646	5,414	16.1%	130	2.5%	-4.1%
Operating income	931	2.8%	1,150	1,143	3.4%	212	22.8%	-0.6%
Environmental equipment business	1,198	7.5%	1,680	1,356	8.3%	158	13.2%	-19.2%
Household equipment business	497	3.1%	457	578	3.7%	81	16.3%	26.7%
Other businesses	22	3.0%	39	13	0.9%	-8	-39.4%	-65.6%
Adjustment	-787	-	-1,026	-805	-	-18	2.3%	-21.5%
Ordinary income	1,136	3.5%	1,350	1,342	4.0%	206	18.2%	-0.5%
Profit attributable to owners of parent	648	2.0%	850	744	2.2%	95	14.8%	-12.5%

Note: Segment profit margins based on sales values for the respective businesses

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

2. Financial position and management indicators

Asset value increased ¥1,603mn YoY to ¥21,626mn at the end of FY12/17. Current assets rose by ¥514mn, and non-current assets added ¥1,088mn. Change in current assets included a ¥1,359mn decline in accounts receivable from completed construction projects and ¥1,087mn increase in cash and deposits. Inclusion of civil works firm DAD in March 2017 increased property, plant and equipment by ¥611mn.

In business indicators, the capital ratio, which reflects financial soundness, rose 0.7ppt to 31.6%. Operating margin, which clarifies profitability, was up 0.6ppt to 3.4%. ROE adjusted for asset efficiency improved 0.5ppt to 11.4% and surpassed 10% in two straight fiscal periods.

Cash and cash equivalents expanded by ¥1,123mn YoY to ¥4,456mn at the end of FY12/17. Increase in funds from operating activities was ¥1,867mn, a much larger amount than the previous year's ¥608mn, mainly because of profit before income taxes (¥1,252mn) and decrease in notes and accounts receivable trade (¥1,061mn). Decline in funds for investing activities was ¥121mn, and drop in funds for financial activities was ¥634mn.

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Results trends

Consolidated balance sheet and management indicators

	FY12/14	FY12/15	FY12/16	FY12/17	Change
(¥mn)					
Current assets	13,779	13,656	14,519	15,033	514
(Cash and deposits)	3,288	3,366	3,430	4,517	1,087
(Trade receivables)	7,248	6,773	8,329	7,490	-839
(Inventories)	2,804	1,907	2,206	2,487	280
Non-current assets	5,284	5,755	5,504	6,592	1,088
Property, plant and equipment	3,727	4,331	4,115	4,726	611
Intangible assets	404	116	84	85	1
Investments and other assets	1,153	1,307	1,304	1,780	475
Total assets	19,063	19,411	20,023	21,626	1,602
Current liabilities	11,367	11,598	12,302	13,259	956
Non-current liabilities	2,141	2,071	1,531	1,542	11
(Interest-bearing debt)	7,288	7,104	6,911	7,546	635
Total net assets	5,555	5,740	6,189	6,824	634
[Stability]					
Current ratio	121.2%	117.7%	118.0%	113.4%	
Equity ratio	29.1%	29.6%	30.9%	31.6%	
[Profitability]					
Operating income margin	2.6%	2.9%	2.8%	3.4%	
ROA	5.0%	5.6%	5.8%	6.4%	
ROE	13.7%	5.9%	10.9%	11.4%	
Ordinary income margin	3.0%	3.3%	3.5%	4.0%	
Net profit margin	2.3%	1.0%	2.0%	2.2%	
Total asset turnover rate (times)	1.66	1.68	1.66	1.61	
Financial leverage (multiple)	3.53	3.41	3.31	3.20	

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

Consolidated statements of cash flows

	FY12/15	FY12/16	FY12/17	Change
(¥mn)				
Cash flows from operating activities	1,369	608	1,867	1,259
Cash flows from investing activities	-814	-104	-121	-17
Cash flows from financing activities	-438	-451	-634	-183
Cash and cash equivalents at end of term	3,301	3,332	4,456	1,123

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

Outlook

FY12/18 forecast at the medium-term business plan's final fiscal-year goals

● FY12/18 outlook

Daiki Axis announced forecast for FY12/18 consolidated results using the medium-term business plan's final fiscal-year goals. It forecasts higher sales and profits in FY12/18 at ¥35,600mn in net sales (+6.1%), ¥1,350mn in operating income (+18.0%), ¥1,500mn in ordinary income (+11.7%), and ¥1,000mn in profit attributable to owners of parent (+34.4%). Progress toward medium-term plan goals through FY12/17 was roughly in line on an overall basis (though content has changed among segments).

Outlook for FY12/18

	FY12/17		FY12/18 E				(¥mn)
	Amount	Ratio to net sales	Amount	Ratio to net sales	Change	%	
Net sales	33,561	-	35,600	-	2,038	6.1%	
Environmental equipment business	16,445	49.0%	17,590	49.4%	1,144	7.0%	
Household equipment business	15,584	46.4%	16,011	45.0%	426	2.7%	
Renewable energy business	173	0.5%	338	0.9%	165	94.5%	
Other businesses	1,356	4.0%	1,660	4.7%	304	22.4%	
Gross profit	6,558	19.5%	7,319	20.6%	760	11.6%	
Selling, general and administrative expenses	5,414	16.1%	5,969	16.8%	554	10.2%	
Operating income	1,143	3.4%	1,350	3.8%	206	18.0%	
Environmental equipment business	1,356	8.3%	1,554	8.8%	197	14.6%	
Household equipment business	578	3.7%	591	3.7%	12	2.2%	
Renewable energy business	-163	-94.2%	-10	-3.2%	153	-	
Other businesses	177	13.1%	204	12.3%	27	15.6%	
Adjustment	-805	-	-989	-	-184	-	
Ordinary income	1,342	4.0%	1,500	4.2%	157	11.7%	
Profit attributable to owners of parent	744	2.2%	1,000	2.8%	255	34.4%	

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

In environmental equipment business, Daiki Axis expects a 7.0% YoY rise in net sales to ¥17,590mn, putting this segment at 49.4% of overall sales. It also forecasts a 25.3% rise in overseas sales to ¥1,712mn within this segment. While a major project in China provided a boost to FY12/17 sales, management expects to book sales for a large project in Indonesia delayed to FY12/18. It projects stable growth in maintenance sales to ¥4,344mn (+3.9%). Clean water ESCO business is aiming for 15 new contracts, compared to just 8 contracts added in FY12/17. Inquiries are picking up, and outlook attainment depends on implementation capacity. The FY12/18 outlook forecasts ¥1,554mn in operating income (+14.6% YoY) for an 8.8% operating margin.

In household equipment business, Daiki Axis anticipates ¥16,011mn in net sales (+2.7% YoY), including for construction customers roughly unchanged at ¥11,141mn, home center retail materials at ¥2,720mn (+6.5%), and housing facilities projects at ¥2,150mn (+13.2%). The FY12/18 outlook forecasts ¥591mn in operating income (+2.2% YoY) for a 3.7% operating margin.

Outlook

Daiki Axis is separately reporting “renewable energy business” results from FY12/18. This business covers power sales from solar power operations, biodiesel fuel business, and compact wind power equipment business. It had ¥173mn in sales and a ¥163mn operating loss in FY12/17. The FY12/18 outlook calls for ¥338mn in sales (+94.5% YoY) and a ¥33mn operating loss. Management envisions a 3.4-fold YoY rise in solar power sales to ¥221mn thanks to steady utilization of rooftop facilities at DCM Group stores. Sales targets for biodiesel fuel and compact wind power equipment businesses are relatively modest at ¥96mn and ¥20mn respectively.

Targets in the other business segment, which consists of CreCla, civil works, and rent income, are ¥1,660mn in sales (+22.4%) and ¥204mn in operating income (+15.6%). Specifically, forecast factors in ¥620mn (+9.0%) for CreCla and ¥1,000mn (+28.5%) for civil works. The DAD unit, which was added to consolidated results during FY12/17, contributed nine months last year and this year’s forecast contains full-year values.

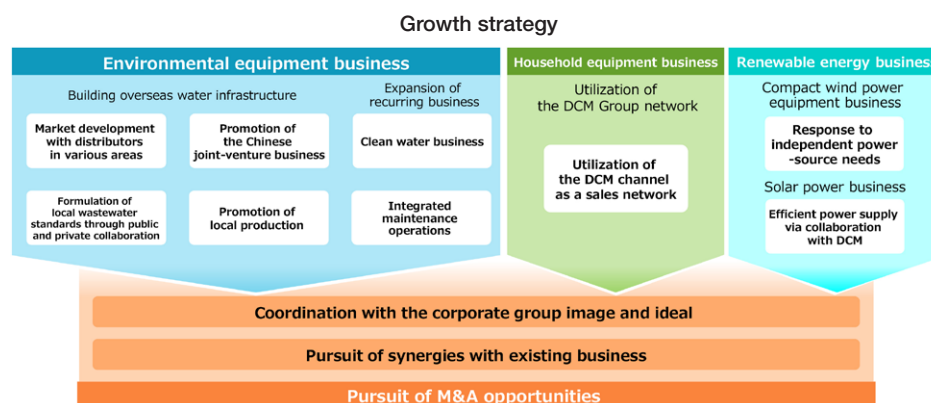
Medium- to long-term growth strategy

Aiming for advances via ESG-oriented management as an environmental creation development model company

1. V-PLAN 60 medium-term business plan

Daiki Axis formulated the V-PLAN 60 medium-term business plan covering the three years from FY12/16 to FY12/18. It updated the management ideal following 10 years since the establishment by adopting a corporate slogan of “PROTECT By CHANGE.” Specifically, “Daiki Axis Group aims to ‘Protect the environment and change the future’ and contributes to improvement in employee lives as well as enhancement of society through continuation of advances as an environmental creation development model company.” With plans to expand overseas business, Daiki Axis switched to an expression that is easier to understand in both Japan and abroad.

Key points in the growth strategy are rapid expansion of overseas business with massive demand potential for water-related infrastructure and steady accumulation of recurring business, such as maintenance and clean water businesses, in Japan. Given the close relationship with DCM Group, Daiki Axis also plans to leverage the DCM channel as a sales network in the household equipment business and expand solar power sales in the renewable energy business.



Source: The Company's results briefing materials

Medium- to long-term growth strategy

Consolidated goals in FY12/18, the medium-term plan's final fiscal year, are ¥35,600mn in net sales (+10.0% vs. FY12/15), ¥1,350mn in operating income (+42.6%), and at least 13% ROE. In shareholder returns, it lifted dividend payout to at least 30%.

Goals in the V-PLAN60 new medium-term business plan

	FY12/15	(¥mn)		
		FY12/18 (plan)	Growth outlook Change	%
Net sales	32,361	35,600	3,238	10.0%
Environmental equipment business	15,406	18,243	2,837	18.4%
(Overseas sales portion)	602	1,224	622	103.3%
Household equipment business	16,299	16,322	23	0.1%
Other businesses	655	1,033	378	57.7%
Operating income	946	1,350	403	42.7%
Ordinary income	1,082	1,500	417	38.6%
Profit	332	1,000	667	200.4%
ROE	5.9%	Over 13%	Over +7.1%	-
Equity ratio	29.6%	Over 35%	Over +5.4%	-
Dividend payout ratio	54.5%	Over 30%	-	-

Source: Prepared by FISCO from Company materials

Note: FY12/15 results excluding special factors, such as extraordinary income, extraordinary losses, and corporate taxes from past fiscal years, were 11.2% ROE, 29.6% equity ratio, and 28.8% dividend payout ratio.

Opening new manufacturing sites in China and India for overseas business

2. Development of overseas markets

The World Economic Forum listed “water crisis” as the fifth item in a section on “global risks with the largest impact” in its 2018 report. The first four are “weapons of mass destruction,” “extreme weather events,” “natural disasters,” and “failure of climate-change mitigation and adaptation.” The Water Environment Partnership in Asia (WEPA), which consists of 13 Asian countries, is working to prevent water pollution. These countries are moving toward stricter environmental regulations aimed at stopping water pollution with efforts to treat residential wastewater too because past treatment of just human waste is not enough. We think an era has arrived in which Japan receives attention for its technologies and product capabilities and knowhow in facility operation and maintenance.

The Ministry of the Environment’s announcement of the “Fundamental Strategy for Overseas Deployment of Environmental Infrastructure” (July 2017) is likely to serve as a tailwind. It envisions provision of Japanese technologies to developing countries and assistance to resolve environmental issues and resulting recruitment of business opportunities for Japanese companies. Officials intend to present a plan that incorporates anticipated market sizes and other details by spring 2018.

Medium- to long-term growth strategy

The Ministry's fundamental strategy reviews actions in six environmental infrastructure areas. For wastewater treatment tanks, it outlines four actions of 1) proposing comprehensive polluted water treatment with sewage systems and wastewater treatment tanks from the master-plan stage, 2) supporting project formulation with feasibility study assistance, business models for various developing countries, standard specifications, and Asian Development Bank (ADB) and other financial entity collaboration, 3) implementing assistance that includes promotion of system aspects of wastewater treatment tank and maintenance and management operations in Asia, and 4) localizing product specifications and assisting adoption of fair performance assessment schemes toward standardization of wastewater treatment tanks in the ASEAN region through industrial, government, and academic cooperation. We expect contributions to awareness-raising activities by the Ministry as a national-level policy. Even if developing countries bolster legal regulations, capital investments to ensure compliance and monitoring and operational systems to maintain and continue standards are often inadequate.

Actions in environmental infrastructure areas – Wastewater treatment tanks

- Proposal of comprehensive polluted water treatment with sewage systems and wastewater treatment tanks from the master-plan stage
- Support of project formulation with feasibility study assistance, business models for various developing countries, standard specifications, and ADB and other financial entity collaboration
- Implementation of assistance that includes promotion of system aspects of wastewater treatment tank and maintenance and management operations in Asia
- Localization of product specifications toward standardization of wastewater treatment tanks in the ASEAN region through industrial, government, and academic cooperation

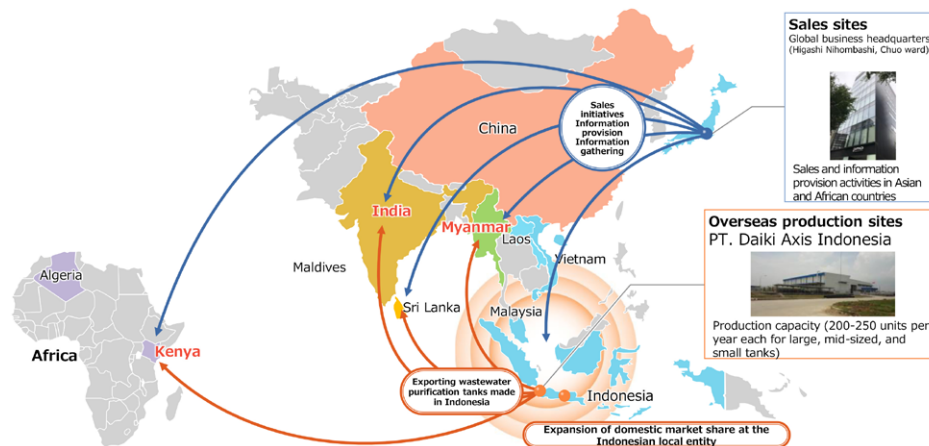
Source: Prepared by FISCO from the "Fundamental Strategy for Overseas Deployment of Environmental Infrastructure" (Ministry of the Environment; July 25, 2017)

Water infrastructure business consists of three main businesses - materials, parts, and equipment manufacturing, equipment design, assembly, installation, and operation, and business operation, maintenance, and management (water sales). France-based Veolia Water Technologies and Suez environment, US-based GE Water & Process Technologies, and other majors cover all of these areas. Japanese players, meanwhile, specialize in individual areas, such as water treatment equipment, engineering, and organizer. Daiki Axis differs from the water majors because it targets smaller wastewater treatment systems. Having the ability to provide the above-mentioned three main businesses enables Daiki Axis to differentiate from other Japanese companies. It can respond to the supply chain for household wastewater treatment, industrial wastewater treatment, and public water purification.

We expect Daiki Axis to acquire early-bird profits from expansion of markets in ASEAN countries, India, and Africa with its smaller-scale wastewater treatment. Daiki Axis created a Global Business Division with overseas subsidiaries in April 2015. The president directly leads the headquarters in order to accelerate overseas initiatives. This include recruitment efforts to customer companies in Japan with local entities that are building plants and retail facilities as well as developing real estate, such as condominiums and standalone home communities. New regulations are setting fairly high levels, and disparities might occur by country in respect to whether local companies actually move quickly in compliance. However, authorities are generally strict in application of standards to foreign-capital companies.

Medium- to long-term growth strategy

Sales expansion strategies in Asian and African countries



Source: The Company's results briefing materials

Daiki Axis is highly competitive in quality, cost, and delivery (QCD) because it fulfills stricter water treatment standards, develops products that meet the climate in regions where equipment is installed, curtails manufacturing costs and transportation expenses and supplies products with shorter delivery times through local production. The new plant in Indonesia, which started full-fledged operations in July 2015, expanded production capacity to five times the previous level. Automation realized with installation of new production equipment established Japan quality and raised productivity. Daiki Axis lowered costs by narrowing product functionality because there is no need for measures to deal with low-temperature conditions in Southeast Asia that is warm throughout the year. It targets individual treatment systems for homes, buildings, plants, and retail sites that use wastewater treatment tanks. The plant has annual output capacity of 200-250 units each for large, mid-sized, and small tanks and is already running at full capacity. Daiki Axis hopes to increase output through extension of plant operating hours. Inquiries are sharply increasing in the wake of concluding sales agent contracts in Myanmar, India, Vietnam, and Kenya in 2016-17. In FY12/18, it plans to begin local production of wastewater treatment tanks in China and India, which have the world's No.1 and No.2 populations respectively and low wastewater treatment rates, through joint ventures with local companies and new subsidiaries.

Daiki Axis Co., Ltd.

4245 Tokyo Stock Exchange First Section

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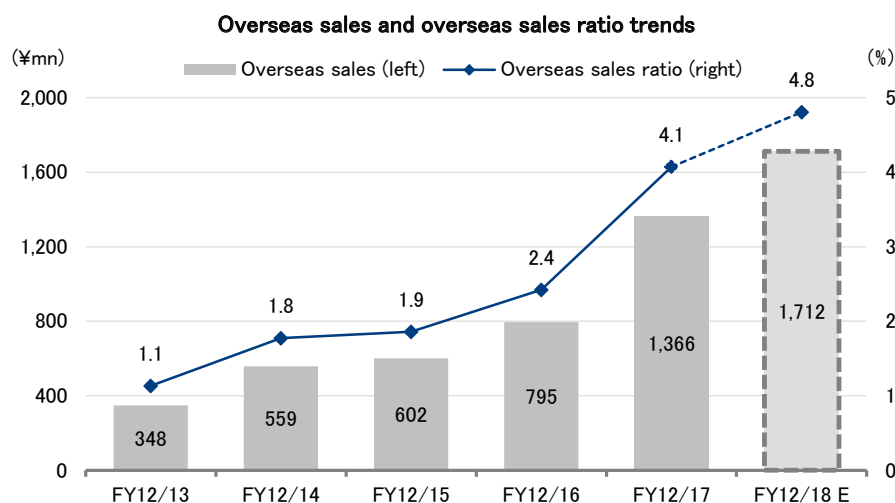
Medium- to long-term growth strategy

Overseas business history and plans

Overview	
October 2005	Received Dalian Daqi Environmental Protection Equipment Co., Ltd. (now, Daqi Environmental Protection Engineering (Dalian) Co., Ltd.) as a spin-off transfer from Daiki
October 2013	Acquired PT. BESTINDO AQUATEK SEJAHTERA (now consolidated subsidiary) <Indonesia> as a subsidiary
April 2014	Increased the ownership stake in PT. BESTINDO AQUATEK SEJAHTERA
August 2014	Ministry of the Environment designated the "household wastewater treatment business using wastewater treatment tanks in Malaysia" proposed by three companies (including Daiki) as a "model business for water environmental improvement in Asia"
April 2015	Formed the East Japan Project Business Division at the Tokyo Headquarters to promote overseas initiatives
June 2015	Opened a branch in Surabaya, Indonesia's second largest city
August 2015	Renamed PT. BESTINDO AQUATEK SEJAHTERA as PT. DAIKI AXIS INDONESIA Completed a new plant in Indonesia
January 2016	Announced the new corporate slogan "Protect By Change" Concluded a sales agent contract with a company in Myanmar
April 2016	Concluded a sales agent contract with a company in India
July 2016	Donated wastewater treatment tanks to the Indian government with installations at a park and village public toilet and conduct test marketing for industrial wastewater
August 2016	Established DAIKI AXIS SINGAPORE PTE. LTD. (now consolidated subsidiary) with the aiming of supervising overseas subsidiaries
June 2017	Formed a Global Business Division in Tokyo with the president directly leading activities as the general manager of this business division Concluded region-based sales agent contracts with four companies in India
August 2017	First shipment, delivery, and installation in Kenya Concluded a sales agent contract with a local business in Sri Lanka
April 2018	Plans to establish joint-venture Lingzhi Daqi Johkaso (Jiangsu) Co., Ltd. to manufacture, and sell wastewater treatment tanks in China
July 2018	Plans to establish joint-venture DAIKI AXIS INDIA Private Limited to manufacture, sell, install, and maintain and manage wastewater treatment tanks in India

Source: Prepared by FISCO from Company materials

Daiki Axis had expected overseas business sales to double over three years from ¥602mn in FY12/15 to ¥1,224mn, but raised the FY12/18 goal to ¥1,712mn because of early attainment. The overseas sales ratio is likely to expand from 1.9% in FY12/15 to 4.8%.



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

Below we review progress in individual countries.

(1) Indonesia

Daiki Axis opened a branch in Surabaya, the second largest Indonesian city, in June 2015. It can recruit orders by setting up sales locations. It renamed the subsidiary to clarify that it is a group company in August 2015. Local production offers an advantage in competition with Japanese manufacturers because of the 15-20% tariff on products imported from Japan.

Tokyu Land Corporation is developing a large-scale condominium site (two buildings with 381 units), including a commercial wing, in Jakarta, the Indonesian capital, that should be ready in December 2018. Daiki Axis is participating in this project and will deliver 10 FRP cylindrical wastewater treatment tanks. It is also involved in projects for AEON CO., LTD. <8267> and TOYOTA HOME Corporation.

(2) Myanmar

Daiki Axis arranged a contract with one sales agent in Myanmar in January 2016 and already has a track record of deliveries, including a retail facility in Thilawa Industrial Park (188 cubic meters in daily treatment capacity), equipment for foreign-capital Novotel Hotel (300 cubic meters), six systems (20 cubic meters each) at a night market (Yangon) with a strong advertising effect, and Yangon City Bank (10 cubic meters). Public project budget usage has moved forward since the transition to a new administration. Authorities are applying regulations more aggressively amid increased in pollution volume accompanying economic advances. Biochemical oxygen demand (BOD), which indicates the state of water pollution, is standardized at BOD20. While Myanmar's quality standard lists local manufacturers with suitable levels, Kubota Corporation <6326> and Daiki Axis are approved firms. Daiki Axis already has stable supply operations and delivers 5-10 units per month.

(3) India

Swachh Bharat (Clean India) is a top-priority issue for the Modi government in India. Sewage systems are only available for about 15% of India. The Clean India project announced in October 2014 sets a goal of installing personal toilets in 120mn homes with an investment of about ¥3.5trn through 2019, the 150th anniversary of the birth of national founder Mahatma Gandhi. It will also install toilets in elementary and middle schools and public toilets. Roughly 48% of India's population, including 67% in farming villages, normally excretes human wastes outdoors because they do not have personal toilets. These conditions pose a public hygiene threat. Some female students decline to attend school due to the absence of toilets separated by gender at schools. Furthermore, outdoor excretion at night leads to sexual assaults against women. The Indian government is pursuing the campaign as a national policy initiative and engaged in awareness activities too. Bollywood, which features singing and dancing, produced a movie entitled "TOILET: A Lover Story" that was released in August 2017.

Daiki Axis donated wastewater treatment tanks to the Indian government in July 2016 as a promotion of product quality. These tanks (with daily treatment capacity of 10 cubic meters) were installed in three locations – a park toilet in Nagpur (midwestern India), a village public toilet, and a plastics plant (industrial wastewater treatment) as test marketing.

Daiki Axis concluded regional sales agent contracts with one company in 2016 and four companies in 2017. Additionally, it concluded sales contracts for wastewater treatment tanks with BI Marketing & Services Pvt., Ltd., the distributor for a Denmark-based global pump manufacturer, and parent HECS, which handles large-scale water treatment business.

Medium- to long-term growth strategy

India strengthened the regulatory level for water pollution from BOD30 previously to BOD10 for properties with wastewater of 2,000 cubic meters or more nationwide in April 2017. While massive demand exists in new construction business, regulations apply to existing facilities too. Existing septic tanks cannot satisfy strengthened regulations because they only handle polluted water and do not treat household wastewater. Trial marketing results confirmed the presence of large demand. Daiki Axis plans to establish DAIKI AXIS INDIA Private Limited as a wholly owned subsidiary via the Singapore-based regional supervisory subsidiary in July 2018 because of expensive prices related to the tariff on Indonesian products and transportation costs. The subsidiary will manufacture, sell, install, and handle maintenance and management of wastewater treatment tanks in India. Production of compact tanks is slated to begin during 2018.

(4) China

In China, Daiki Axis has a wholly owned subsidiary in Dalian that operates as an engineering firm. It acquires major projects through designations from Japanese companies. A new development occurred in the market in 2018. In November 2017, Chinese President Xi Jinping issued a directive to promote a “toilet revolution” of installing clean toilets. This “toilet revolution,” which was communicated as an important directive, calls for improvement in public life quality in not only tourist areas and cities, but also farming villages. The initiative supports faster rollout of sewage treatment facilities in villages too. Public private partnership (PPP) has been advancing in China since 2014 to enhance the environment in villages. It is estimated that 100-200mn households from the 800mn people living in farming villages constitute a latent market for wastewater treatment tanks. Opportunities for inroads by Japan-type purification tanks are growing thanks to pricing adjustments from utilization of the private sector and stricter water quality standards. Cities, towns, and other public entities are asking for integrated bids to make, install, and operate wastewater treatment tanks and require a 25-year guarantee of water quality.

Daiki Axis agreed to establish a joint venture with a Chinese company in March 2018. Local partner Lingzhi Environmental Protection Co., Ltd. (Yixing City, Jiangsu) has a track record of 20 years in sewage treatment facilities (septic tanks). Planned investment ratios for the joint venture (provisionally named Lingzhi Daqi Johkaso (Jiangsu) Co., Ltd.) are 51% for the Chinese side and 49% for Daiki Axis. The joint venture is likely to be handled as an equity-method entity. A new plant for residential wastewater treatment tanks using Daiki Axis technology will be built at the joint venture’s site. This facility will supply products to the respective investors. Septic tanks installed in Chinese farming villages handle polluted water treatment, but do not address residential wastewater and are not enough to meeting water-quality standards. Installations thus will involve septic tanks that cover 3-4 ordinary households per tank and subsequent treatment using wastewater tanks.

(5) Other regions

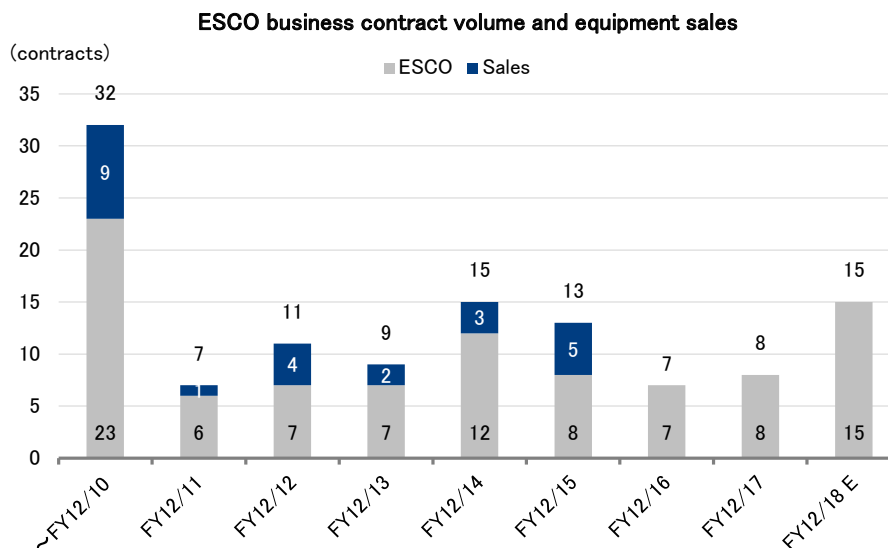
Vietnam, a farming country, is promoting stricter wastewater regulations for BOD, nitrogen, ammonia, and other substances. These conditions are likely to raise demand for products with Japanese specifications that deliver robust treatment performance. Daiki Axis selected a local partner and has started to accept orders. Additionally, it shipped its first product to Kenya (Africa) and completed delivery and installation in August 2017. Inquiries are rising sharply from the new distributor in Nairobi.

Strengthening clean water business with recurring income in Japan

3. Clean water business: Recurring-income business with healthy earnings

ESCO service uses a lengthy contract period of 10 years. Contracts with existing customers generate stable income over a prolonged period and new contracts steadily add income. Business is profitable from the first fiscal year of beginning supply at the various sites. Daiki Axis currently applies an upper limit of 15 projects a year in light of investment value and production and installation capabilities.

Supply facility depreciation employs the straight-line method. While annual depreciation value is constant throughout the contract period, operating margin rises sharply from the second year because operating expenses are no longer needed. Furthermore, profitability increases dramatically if the contract continues after the 10th year when the depreciation period finishes. Daiki Axis began the ESCO business in FY12/06 and is likely to see increase in high-profit projects already done with depreciation.



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

Deployment of biofiltration technology is a recent advance. It removes iron, manganese, ammonia, and other substances found extensively in pretreated water without having to add chemicals and thereby enables low-cost, advanced treatment of underground water previously avoided for conversion to drinking water. Medical entities running dialysis require large amounts of water with high purity. Demand is likely to expand for emergency use other than daily usage.

Water supply operations by local government entities are facing a threat to sustainability. While aging equipment requires upgrades, Japan's aging society is likely to reduce user volume and usage per capita. According to the "What is the Outlook for Water Supply Fees in an Era of a Shrinking Population? National Forecasts and Report" issued in February 2015 by Ernst & Young ShinNihon LLC and the Secretariat of the Water Security Council of Japan, 1,221 service operators, or 98% of those covered in the analysis, will have to increase water supply rates in order to avoid losses by 2040. The report estimates that rate hikes of 30% or more will be necessary at 604 operators. Fee hikes are growing at public entities with a smaller number of people drinking water (less than 20,000), particularly in Hokkaido and the Tohoku area.

Medium- to long-term growth strategy

Water supply rate revisions by local public entities expand demand in Daiki Axis's water supply business. Increases in water supply fees also result in higher sewage rates so demand is growing for water recycling business that reuses utilized clean water and curtails outflow volume. Administrative private-sector consignments with PFI and other formats should address not only clean water business, but also wastewater treatment community plants. We expect a business environment that takes advantage of strength from having a full line-up of clean water, recycled water, and sewage water systems.

4. Product development – High added value

Environmental equipment business focuses on increase of added value by releasing new products. Development policy seeks to recruit high value-added markets and enhance price and quality competitiveness. In FY12/18, Daiki Axis will release the GA model, a new line-up of mid-sized wastewater treatment tanks, and the DAC-S, a disposer system that is company strength. The GA model accommodates smaller condominium buildings. It features compact capsule-type products with enhanced biological treatment (that cleans wastewater) performance as an alternative to former cylinders in order-based production. It should help shorten delivery periods and lower costs because inventory production is possible. Daiki Axis reduced capacity versus previous products by 28% and thereby boosts pricing and installability.

The DAC-S disposer system for multi-dwelling homes lowered capacity by more than 25% (vs. the previous product) through revisions to treatment flow. Applications include large kitchens, such as those at food plants and meal supply centers, as well as an industrial wastewater treatment system with zero emissions through use of a disposal system for raw garbage currently disposed of externally.

“GA model” medium-scale wastewater treatment tanks



Multi-dwelling home disposer system DAC-S



Source: The Company's results briefing materials

DA Invent, which was acquired as a subsidiary in January 2018, holds multiple patents for high-temperature, high-pressure hydrothermal treatment and subcritical equipment. This subsidiary's Super Steam hydrothermal processing system dissolves organic wastes. The technology can be applied to lowering sludge volume. We expect synergy benefits due to the ability to expand business coverage to a new area.

Launching solar power business that utilizes rooftops of 100 DCM Group stores

5. Renewable energy business

(1) Selling power from solar-power facilities

Daiki Axis is launching power sales business using solar power from facilities that lease the rooftops of DCM Group stores. The feed-in tariff (FIT) for Japanese fiscal year (JFY) 2017 (ended March 2018) is ¥21/kWh, and Daiki Axis has already submitted applications for 100 stores to the Minister of Economy, Trade and Industry. Construction will begin in April 2018. Power sales income should only amount to around ¥200mn in FY12/18 with just some locations finished. This business is likely to generate ¥800mn in revenue and ¥400mn in operating income from FY12/19 when operations fully ramp up. Daiki Axis is negotiating prices with solar power equipment manufacturers with support from large orders volume.

(2) Compact wind power equipment

Electricity FIT for renewable energy was ¥55/kWh in JFY2017 for compact wind-power equipment at less than 20kW. The price from JFY2018, however, will be revised to ¥20/kWh because this becomes the same category as 20kWh and above from April 2018. Nevertheless, sales will focus on compact wind power because of the roughly 8,000 applications already submitted through March 2018. There is strong demand for FIT-compliant products that link to the grid due to the relatively high FIT for compact wind power equipment. To meet current needs, Daiki Axis is releasing the Sylphid HS-10, which combines a horizontal-axis 10kW windmill from China-based Ginlong Technologies Co., Ltd. with a track record in Asian sites and a power conditioner from a major domestic electric equipment manufacturer. It plans to obtain certification in July 2018 following a field test in Inner Mongolia and grid linkage discussions.

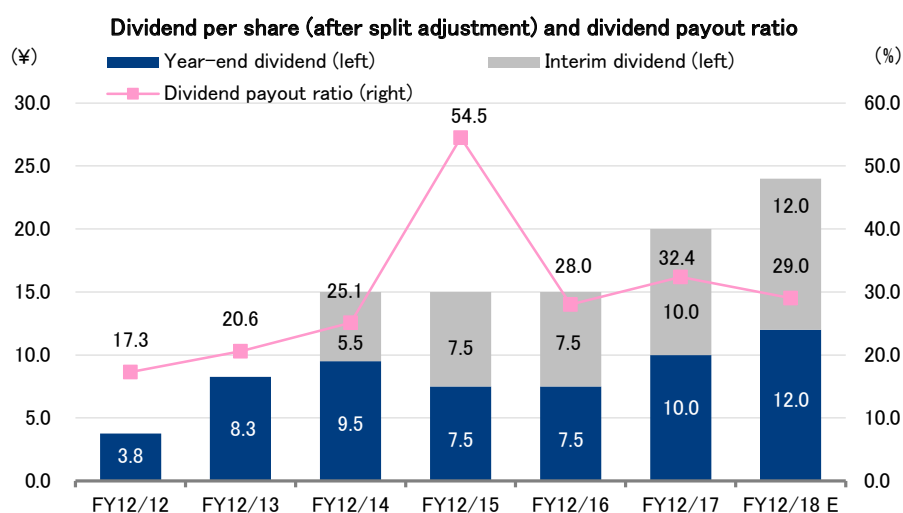
A group subsidiary has built a real-world vertical-axis product as a compact wind-power system suited to Japan's wind conditions with substantial turbulence. This product is not being applied to power sales via grid linkage. Instead it is sold to public entities and corporations as an auxiliary power source or autonomous power source at public and retail facilities for on-site power generation. The current product has a power output capacity of 3kW. Development activities are addressing the more practical 10kW VAS 10.0 and downscaled 1kW VAS 1.0.

Shareholder return policy

Stock split and dividend increase in FY12/17; planning a consecutive dividend hike in FY12/18

1. Stock split, dividend per share, and payout ratio

Daiki Axis aims to pay a consolidated dividend at a ratio of at least 25% for the time being and raise it to 30% over the medium term, as shareholder return measures. In FY12/17, it split the stock at a 1-to-2 ratio for ordinary shares based on holdings as of June 30, 2017 for a purpose of improving stock liquidity. Dividend after the split is set at ¥10 per share at end-1H and period-end for a total of ¥20 for the year. This is a ¥5 increase (¥10 on a pre-split basis) because the annual dividend after adjustment in FY12/17 was ¥15. The 32.4% dividend payout ratio exceeds the 25% anticipated level. In FY12/18, Daiki Axis plans to allocate a ¥2 commemorative dividend each time to the ¥10 ordinary dividend at end-1H and end-period. The resulting ¥24 for the year represents a consecutive dividend hike. Anticipated dividend payout ratio is 29.0%.



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

2. Shareholder benefit program

Daiki Axis adopted a shareholder benefit program from FY12/16. The program sends an original QUO card worth ¥1,000 to shareholders owning 100 shares (basic unit) or more at period-end. Management plans to implement a shareholder benefit program with the same content again in FY12/18.

Information security measures

Security education through e-learning

As information security measures, Daiki Axis deploys computer virus detection and removal anti-virus software in individual PCs. It constantly runs system operation and management software and monitors and restricts security. For employees, it has formulated an information security policy and seeks to raise awareness. Security education is given to all employees each year through e-learning and security measures are making inroads in the organization.



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