COMPANY RESEARCH AND ANALYSIS REPORT

Daiki Axis Co., Ltd.

4245

Tokyo Stock Exchange First Section

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Summary

The Company's Johkasou have been highly evaluated by the Indian government and others. They do not interfere with the speed of urbanization and are optimal for installation in terms of cost and speed

Daiki Axis Co., Ltd. <4245> (hereafter, also "the Company") is committed to its corporate mission statement of "Protect the environment. Change the future." Guided by this corporate mission, the Company aims to continue advancing as an environmental innovation and development company. The Company has adopted "Promotion of ESG management" as a key management theme, and is working specifically to realize six of the United Nations Sustainable Development Goals (SDGs). To realize the sixth SDG, "Clean Water and Sanitation: Ensure availability and sustainable management of water and sanitation for all," it is accelerating overseas business development in its core business.

1. Signaling a new start by opening up overseas markets

In the FY2013 model business relating to the Japanese government's Asian Water Business, the Company participated with its Johkasou (a wastewater treatment system), which are unique to Japan. In emerging countries in which the sewerage infrastructure penetration rates are low, the situation of environment pollution due to insufficient wastewater treatment cannot be overlooked, and wastewater treatment standards are becoming stricter. In India in 2019, the Ministry of Water Resources, Ministry of River Development, and Ministry of Water and Public Sanitation were integrated into the Ministry of Water Environment (called the Ministry of Jal Shakti in India), and it is progressing the Namami Gange Project (the project to clean the River Ganges) and promoting the spread of the use of toilets. Local companies do not have the technological capabilities to clear the stricter standards, while companies in advanced countries cannot provide cost-competitive products suitable to local water conditions. The Company is solving these problems and is signaling a new start by opening up markets in emerging countries.

In 2016, the Company donated Johkasou to the Indian government and conducted test marketing, which has proved useful for local water quality testing and product development. Currently in India, it is building an agency network of 16 companies and is carrying out local production. The usefulness of the Company's products is being recognized through its continuous demonstration experiments using actual demonstration equipment and its submission of wastewater treatment data, and it has made major progress in India since 2020. The Company's India-manufactured Johkasou were awarded the first eco-certification in the sewerage treatment sector, and they subsequently received the recommendation approval of the Ministry of Water Environment. In the following month, it received an order from the Dehli Development Authority for a project to use products with recommendation approval. It also had an offer from the Indian Institute of Technology, which is considered to be a national research institute, for a demonstration experiment and joint research. In the Federation of Indian Chambers of Commerce and Industry's Water Awards in 2021, it was awarded First Prize (Gold Award) in the Innovation in Water Technology Sector. Each of these were firsts for a Japanese company. The sewerage infrastructure penetration rate in India is only around 30%, and centralized wastewater treatment facilities are insufficient. Installations of Johkasou have been highly evaluated both in terms of costs and speed, as they prevent insufficient capacity for the treatment of sewage and household wastewater from impeding the speed of urbanization.

2. FY12/20 results and FY12/21 forecasts

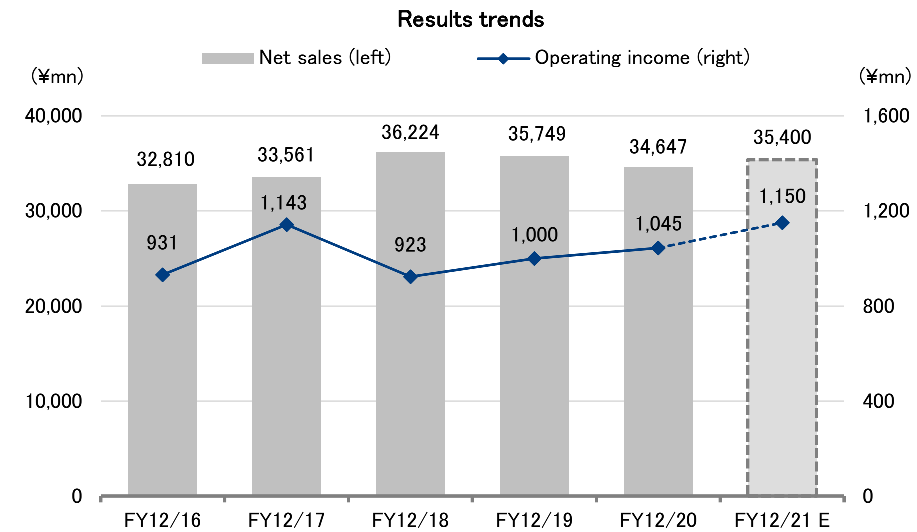
Due to the impact of the COVID-19 pandemic (hereafter, "COVID-19") spreading around the world, the Company's business activities were restricted domestically and overseas, so it did not achieve the initial forecasts for FY12/20. Compared to the previous period, net sales decreased 3.1% and operating income increased 4.4%. The forecasts for FY12/21 are for net sales to increase 2.2% year on year (YoY) to ¥35,400mn and operating income to increase 10.0% to ¥1,150mn. Overseas net sales are forecast to increase 72.7%, as rapid progress is expected in India.

3. Shareholder return policy and shareholder benefit program

In FY12/21, the Company will maintain the annual dividend per share at ¥24. It aims for a consolidated dividend payout ratio of 30%, but will increase this to 42.5% in FY12/21. It has also newly established the Daiki Axis Premium Benefits Club, which reflects long-term holdings and the number of shares held by shareholders, and it is enhancing shareholder benefits.

Key Points

- In FY12/20, the renewable energy business became the third pillar of profits
- Expected to make rapid progress in overseas markets, particularly in India
- Has introduced a new shareholder benefits program and is enhancing shareholder benefits



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

Company profile

Promoting ESG management

1. Company profile

The Company has been helping create comfortable lives and conducting environmental preservation for half a century on the theme of “water and living.” Not limited to water, it is developing its business while also maintaining harmony between the irreplaceable Earth, which has both “nature as the natural environment” and “nature as a resource,” and pleasant living environments. In the wastewater treatment business, the two pillars of sales are the environmental equipment business, which includes Johkasou, and wholesaling in the household equipment business, such as residential facilities and equipment. As for profits, the solar power business has entered a period for recouping investment, and the renewable energy business has developed into the third pillar of profits.

The Company is progressing ESG (Environment, Social, Governance) management. Through constructing a solid company foundation and conducting both “business activities” and “corporate activities,” it is contributing to creating a sustainable environment and society, while aiming to improve people’s QOL (Quality of Life). In its contribution to Environment through business activities, it converts dirty water to clean water through its products and services as a water treatment manufacturer, and its goal is to improve the water environment on a global scale. Johkasou, which is a system unique to Japan, makes it possible to treat on-site sewage and household wastewater, and is therefore effective domestically or overseas. In addition to the business to convert underground water to drinking water in Japan, overseas it is conducting a business to provide drinking water in developing countries where access to safe drinking water can be difficult.

Japanese Prime Minister Yoshihide Suga announced in his general policy speech in October 2020 that Japan will become carbon neutral by 2050, the first such announcement by the Japanese government. In advance of this announcement, the Company, as a biodiesel fuel manufacturer, has been contributing to becoming carbon neutral since 2002 by supplying clean light oil manufactured from used tempura oil. Also, in its renewable energy business, it is using solar power and wind power to create clean energy. It has been able to get the solar power business on track in a short period of time through the installation of solar panels on the roofs of the stores of the DCM Group (described below). It is progressing the power sales business through compact wind power equipment, targeting 70 sites nationwide. It is also participating in the Japanese Ministry of the Environment’s Technology Development and Demonstration Project for Low-Pressure Wind Power Generation Equipment, as the joint implementer of a business to develop wind power generation equipment with a rated output of 50kW, which is highly acceptable within society. In the residential equipment wholesales business, it handles environmentally friendly specialty products that can be utilized for various purposes, including for energy-saving products and thinning lumber.

For Social, the Company is conducting awareness-raising activities on clean energy, including in schools. It is also actively conducting measures for workstyle reforms and diversity, including accepting diverse cultures and ways of thinking, realizing workstyles in response to the new normal, and actively recruiting overseas human resources and female board members. For Governance, it clearly provides information to shareholders and other stakeholders (employees, customers, members of local communities, etc.), and by supervising corporate management through structural reforms to management, it manages risks that may occur both inside and outside of the Group. In March 2019, as part of its measures to enhance corporate governance, it became a company with an audit and supervisory committee and introduced an executive officer system. Among the 12 directors, 5 are outside directors.

According to the Global Sustainable Investment Alliance (GSIA), global ESG investment had reached approximately US$30tn by 2018, and in Japan, it grew by around 307%, from ¥57tn in 2016 to ¥231tn in 2018 (source: 2018 Global Sustainable Investment Review). The Tokyo Stock Exchange (TSE) has indicated its approach of placing importance on ESG initiatives at listed companies in its market reorganization scheduled for next spring. From a global perspective as well, requirements are increasing for companies to broaden their disclosure of ESG information. In this situation, the Company has been working on ESG management from an early stage and going forward, at FISCO we think it will benefit from the business climate surrounding the environmental equipment business and renewable energy business.

The Company was newly listed in the Chemicals Sector of the TSE Second Section in December 2013, and then its listing was upgraded to the TSE First Section in December of the following year.

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 Johkasou 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. Ahead of the establishment of the current DCM Holdings Co., Ltd. <3050> in 2006, Daiki transferred non-home center businesses to Daiki Axis, which was founded as the successor company for those businesses. Capital ties between Daiki Axis and Daiki subsequently ended due to the management buyout (MBO) that established the Company's independence from Daiki, though transactions between the two companies are continuing.

Daiki Axis was officially founded in 2005, but has designed, manufactured, installed, sold, and maintained various wastewater treatment systems over about half a century since the Daiki era when it completed the first fiber-reinforced plastic (FRP) Johkasou in 1965. The household equipment business began handling TOTO LTD. <5332> products in 1971. Its business scope is limited to the Kinki, Chugoku, and Shikoku areas, where it 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 launched a solar power business that leases the rooftops of the DCM Group's stores. Additionally, the Company embarked on a compact wind power generation business in 2019.

The Daiki Axis Group is comprised of the Company, 13 consolidated subsidiaries (7 in Japan and 6 overseas), 1 non-consolidated subsidiary (Japan) and 2 equity method affiliates (overseas). It has conducted M&A and established subsidiaries to strengthen the environmental equipment business, open up overseas markets, and enter new fields. With M&A as a growth strategy, it has acquired 9 of its consolidated subsidiaries.

Group company

Name	Date	Form	Base	Business description
Environmental equipment business				
[Japan]				
DAITEC Co., Ltd.	October 2005	Business succession	Matsuyama City, Ehime Prefecture	Inspections of Johkasou and drinking water/wastewater facilities, comprehensive building management
Environment Analysis Center Co., Ltd.	October 2005	Business succession	Matsuyama City, Ehime Prefecture	Analysis of water quality, air, soil, etc. as an environmental measurement verification office
TOBU Co., Ltd.	November 2007	Acquisition	Nagoya City, Aichi Prefecture	Design, construction and maintenance inspections of various water treatment facilities, mainly in the Tokai area
DA INVENT Co., Ltd.	January 2018	Acquisition	Nagoya City, Aichi Prefecture	Environmental infrastructure-related business
[Overseas]				
Daqi Environmental Protection Engineering (Dalian) Co., Ltd.	October 2005	Business succession	China	Design, construction and sales of sewage treatment equipment, greywater and filtration equipment, etc.
PT. DAIKI AXIS INDONESIA	October 2013	Acquisition	Indonesia	Base to enter South East Asia to manufacture Johkasou
Daiki Axis Singapore Pte. Ltd.	August 2016	Establishment	Singapore	Company that supervises overseas subsidiaries
CRYSTAL CLEAR CONTRACTOR Pte. Ltd.	November 2018	Acquisition	Singapore	Pool maintenance work, pool equipment sanitation wastewater construction work
DAIKI AXIS INDIA PRIVATE LIMITED	July 2018	Establishment	India	Manufacture and sales of Johkasou in India
Lingzhi Daiki Purification Tank Earth Water Limited Jiangsu Co., Ltd. (equity method affiliate)	March 2018	Establishment	China	Manufacturing base for residential-use Johkasou in China (joint venture)
Daiki Earth Water Private Limited Company	September 2019	Establishment	India	Drinking water and wastewater treatment business
BEIJING JIESHENFUJI Environment Protection Tech Co., Ltd. (equity method affiliate)	January 2018	Acquisition*1	China	Design and R&D of energy-saving environmental conservation equipment and related plant equipment
DAIKI-USAFI LIMITED*2	October 2019	Establishment	Kenya	Wastewater treatment business through BOO
Household equipment business				
Fujiwara Reiki Co., Ltd.	October 2019	Acquisition	Matsuyama City, Ehime Prefecture	General equipment business (including for HVAC equipment), sales of freezers and refrigerators
Japan Air Solutions Co., Ltd.	October 2019	Acquisition	Matsuyama City, Ehime Prefecture	Installation of HVAC equipment
Renewable energy business				
Sylphid Co., Ltd.	April 2012	Acquisition	Tokyo	Development, sales and installation of compact wind power generation equipment, solar power and compact wind power generation businesses

*1 After DA INVENT was made a subsidiary, the Company also acquired BEIJING JIESHENFUJI Environment Protection Tech, which is an equity method affiliate of DA INVENT.
*2 As of December 2020, it was not included in the scope of consolidation as its numerical impact is negligible.
Source: Prepared by FISCO from the Company's securities report, results briefing materials, and news releases

In October 2019, the Company acquired all shares of two companies headquartered in Matsuyama City, Ehime Prefecture and turned them into subsidiaries. The two companies are Fujiwara Reiki Co., Ltd., whose main businesses are the general equipment business for HVAC, plumbing, and electrical systems and the sale of freezers and refrigerators, and Japan Air Solutions Co., Ltd., which performs the installation of the abovementioned HVAC equipment. For the most recent fiscal year (FY4/19), Fujiwara Reiki posted net sales of ¥1,744mn and operating income of ¥55mn. For FY2/19, Japan Air Solutions reported net sales of ¥256mn and operating income of ¥83mn. The Company expects to generate future synergies by, for example, carrying the products of the new subsidiaries and harnessing their client infrastructure. For the subsidiaries, the deal will lead to an expansion of their business areas through the use of the Company's nationwide household equipment wholesale network.

Business overview

Development company placing emphasis on water and the environment

In FY12/20, the business scale was net sales of ¥34,647mn and operating income of ¥1,045mn. Looking at the composition of net sales by segment, the environmental equipment business provided 51.0%, household equipment business 42.6%, renewable energy business 2.6%, and other businesses 3.8%. Operating income and the operating income margin by segment were ¥1,199mn and 6.8% in the environmental equipment business, ¥313mn and 2.1% in the household equipment business, ¥347mn and 38.4% in the renewable energy business, and ¥171mn and 13.1% in other businesses.

The Make FOUNDATION Plan, which was the three-year medium-term business plan up to FY12/21, was interrupted by the impact of COVID-19 and the quantitative targets for its final fiscal year were lowered. The Company has formulated a new three-year medium-term business plan with FY12/21 as its first fiscal year. The aim is to realize the embodiment of PROTECT × CHANGE, which is the corporate slogan up to the present time. It is maintaining six growth strategy items, including accelerating overseas business development and renewable energy. In response to changes caused by COVID-19, it has elevated promotion of IT to a growth strategy from its previous positioning as a method to improve productivity.

1. Environmental equipment business

The environmental equipment business handles activities ranging from the manufacturing and sales of plastic Johkasou to the design, installation, and maintenance of large concrete 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 a wastewater recycling system for reuse of used clean water. It has built maintenance service operations as joint operations with subsidiaries.

In the environmental equipment business, net sales (FY12/20) were divided into 95.8% from Johkasou and wastewater treatment systems and 4.2% from the clean water business. Due to the global impact of COVID-19, the overseas business did not perform as initially expected and the ratio of overseas sales to net sales remained at only 5.7%. Conversely, sales steadily grew in the maintenance business, which is a recurring-income business, and it contributed 29.1% of total net sales.

(1) Strength

An important strength is integrated operations covering development, design, production, installation, sales, and maintenance of wastewater processing facilities. Provision of maintenance services sustains contact with customers and leads to orders for repairs and expansion projects. Knowledge of customer needs confirmed through on-site interaction is also fed back to R&D activities. Regarding maintenance, the Company has a dedicated division that provides services that meet customer requirements, such as 24-hour monitoring and spot responses.

(2) Overseas business

The water infrastructure business consists of three main businesses - materials, parts, and equipment manufacturing; equipment design, assembly, installation, and operation; and business operation, maintenance, and management (water sales). France-based Veolia Water Technologies and SUEZ, 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. The Company differs from the water majors because it targets smaller wastewater treatment systems. Having the ability to provide the abovementioned three main businesses enables the Company to differentiate from other Japanese companies. It can handle household wastewater treatment, industrial wastewater treatment, and public water purification. There is the high possibility of obtaining a first-mover advantage with the expansion of the markets for small- and medium-scale wastewater treatment systems in ASEAN, India, and Africa.

(3) Clean water business

The clean water business, which was launched in 2007, is an ESCO service to stably provide safe and inexpensive drinking water. 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. The Company 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.

This ESCO service uses a lengthy contract period of 10 years. This is a recurring-income business model in which contracts with existing customers generate stable income over a lengthy period and new contracts steadily add income. The business is profitable from the first fiscal year of beginning supply at the various sites. The Company currently applies an upper limit of 15 projects a year in light of investment costs and production and installation capabilities. Supply facility depreciation employs the straight-line method. While annual depreciation value is constant throughout the contract period, the operating income margin rises sharply from the second year because operating expenses are no longer needed. Furthermore, profitability increases dramatically if the contract continues for more than 10 years when the depreciation period finishes. The Company began this ESCO business in FY12/06.

In FY12/20, there was one contract to install an ESCO system and one purchase sale. Breaking down by industry the 97 ESCO installations at the end of the same period, 28 were for hospitals, 16 for welfare facilities, 14 for food processing plants, 12 each for large-scale commercial facilities and sports gyms, 8 for educational facilities, 5 for hotels, 1 for a hot spring bathing facility, and 1 for other. Due to COVID-19, management conditions were severe at sites such as hospitals, large-scale commercial facilities, sport gyms, and hotels. The amount of water used also declined.

(4) Maintenance inspection business

The Company handles store Johkasou installations and maintenance and store management tasks (cleaning, fire prevention, electricity, and other inspections) at the DCM Group's stores. It aims to expand bulk orders of wastewater treatment equipment and Johkasou maintenance at major convenience store chains and major restaurant chain stores and their central kitchens. While existing service firms provided coverage in local areas, the Company seeks differentiation by not only lowering costs, but also delivering uniform services on a nationwide scale. By conducting maintenance work, it is able to provide proposals in a timely manner for rebuilding and expansion construction work. This creates a virtuous cycle for the Company, in which it utilizes problem points ascertained in maintenance work in development of products in the next period.

2. Household equipment business

The Company is aiming to convert the household equipment business from the previous "stable" trajectory to a "growth" trajectory. It is progressing an area-capture strategy through strengthening sales for areas it has not yet entered and acquiring business opportunities and handling new products in the remodeling market through e-commerce. It also intends to improve the profit margin by adopting a centralized purchasing system.

The household equipment business had a sales breakdown in FY12/20 of construction customers at 71.5%, home center retail materials at 13.2%, and housing facilities projects at 15.3%. The newly established e-commerce (EC) business is still in its start-up period, with net sales of ¥3mn.

3. Renewable energy business

Breaking down net sales in the renewable energy business (FY12/20), the power sales business through solar power facilities provided 87.6% and the biodiesel fuel business provided 12.2%. The feed-in tariff (FIT) fixed price for most of the solar power facilities leased to the DCM Group for installation on the roofs of its stores is set at the FY2017 price of ¥21/kWh. Installation work has already been completed at 130 sites, and by the end of FY12/20, 129 sites had been connected to the grid. The FY12/21 outlook is for stable earnings, with net sales to increase 5.0% YoY to ¥832mn and operating income of around half this amount. The depreciation period of solar power generation facilities is 20 years (straight-line method), the same as the FIT fixed-price purchase period. Moreover, the Company has formed a budget that provides for the dismantlement cost after 20 years to be allocated over the period. The use of the rooftops of existing stores has allowed the Company to order and install a massive number of solar panels in a short space of time. This, in turn, has enabled the Company to achieve savings in solar panel purchasing and installation costs.

4. Other businesses

Other businesses are comprised of the residential drinking water business and civil works and rent income business. In FY12/20, both provided around half of net sales. Due to the sale of the subsidiary conducting the civil works and rent income business, this business will be comprised only of the residential drinking water business from FY12/21.

Results trends

In FY12/20, the renewable energy business became the third pillar of profits

1. Overview of FY12/20 results

Looking at FY12/20 consolidated results, net sales decreased 3.1% YoY to ¥34,647mn, operating income rose 4.4% to ¥1,045mn, ordinary income increased 4.8% to ¥1,211mn, and profit attributable to owners of parent decreased 39.0% to ¥477mn. Compared to forecasts at the time of the 3Q results announcement, net sales, operating income and ordinary income respectively exceeded forecasts by 0.7%, 3.5%, and 4.4%, while profit attributable to owners of parent fell short by 13.3%.

FY12/20 consolidated results

(¥mn)

	FY12/19		FY12/20			YoY		vs. plan
	Results	Ratio to sales	Forecast*	Results	Ratio to sales	Change	%	
Net sales	35,749	-	34,400	34,647	-	-1,101	-3.1%	0.7%
Gross profit	6,968	19.5%	-	7,336	21.2%	367	5.3%	-
SG&A expenses	5,968	16.7%	-	6,291	18.2%	322	5.4%	-
Operating income	1,000	2.8%	1,010	1,045	3.0%	44	4.4%	3.5%
Ordinary income	1,155	3.2%	1,160	1,211	3.5%	55	4.8%	4.4%
Profit attributable to owners of parent	782	2.2%	550	477	1.4%	-305	-39.0%	-13.3%

* Forecasts at the time of the 3Q results announcement (November 2020)
Source: Prepared by FISCO from the Company's financial results

The business environment surrounding the Daiki Axis Group worsened both domestically and overseas due to the impact of COVID-19. The pandemic interrupted the Make FOUNDATION Plan, the three-year medium-term business plan up to FY12/21, and the quantitative targets for the plan's final fiscal year were withdrawn.

Profit attributable to owners of parent declined by a considerable extent due to the sharp hike in the effective tax rate, from 21.8% in the previous period to 48.1%, and an increase in extraordinary loss. In terms of this extraordinary loss, while there was a gain of ¥152mn on the sale of all shares of consolidated subsidiary DAD Co., Ltd., an impairment loss on the non-current assets of Group companies of ¥265mn was recorded as an extraordinary loss.

FY12/20 net sales and operating income by business segment

(¥mn)

	FY12/19		FY12/20		YoY	
	Results	Ratio to sales	Results	Ratio to sales	Change	%
Net sales	35,749	-	34,647	-	-1,101	-3.1%
Environmental equipment business	18,570	51.9%	17,687	51.0%	-882	-4.8%
Household equipment business	14,642	41.0%	14,742	42.6%	100	0.7%
Renewable energy business	699	2.0%	904	2.6%	205	29.4%
Other businesses	1,837	5.1%	1,312	3.8%	-525	-28.6%
Operating income	1,000	2.8%	1,045	3.0%	44	4.4%
Environmental equipment business	1,068	5.8%	1,199	6.8%	131	12.3%
Household equipment business	366	2.5%	313	2.1%	-53	-14.6%
Renewable energy business	256	36.6%	347	38.4%	91	35.7%
Other businesses	152	8.3%	171	13.1%	18	12.4%
Adjustment	-843	-	-987	-	-144	-

Note: Ratios of profit to sales are based on net sales in each business
Source: Prepared by FISCO from the Company's financial results and results briefing materials

(1) Environmental equipment business

In the environmental equipment business, net sales decreased 4.8% YoY to ¥17,687mn and operating income increased 12.3% to ¥1,199mn. Factors causing sales to decline were the fall off of large-scale projects in the previous period, the decrease in sales from the application of the progress standard, and the decline in overseas sales. While there was demand for domestic infrastructure construction and industrial wastewater treatment facilities, orders for construction projects were postponed because of the requirement for self-restraint due to COVID-19. In the overseas markets as well, the business climate worsened due to the impact of COVID-19. In the overseas business, net sales declined 13.1% and contributed only 5.7% of total net sales, a decrease from 6.2% in the previous period. Maintenance net sales, which are a stable source of earnings, grew 4.5%, and accounted for 29.1% of total sales, an increase from 26.5% in the previous period.

In profits, loss-making projects in the previous period ended and the operating income margin improved from 5.8% to 6.8%. However, it did not recover to the level of FY12/18 (7.5%). In the previous period, due to the completion of large-scale projects that finally recorded a loss, profits recorded in accordance with the construction work progress standard in FY12/18 were returned. In FY12/20, the Company reviewed outsourcing costs and prevented the recurrence of unprofitable projects.

(2) Household equipment business

In the household equipment business, net sales increased 0.7% YoY to ¥14,742mn and operating income declined 14.6% to ¥313mn. COVID-19 caused problems in the global supply chain and delays occurred in the deliveries of some suppliers' products. In the domestic housing remodeling market, potential demand is firm, although it currently appears to be in an adjustment phase. In home center retail materials, nesting (stay-at-home) demand ended and sales decreased to existing stores. E-commerce (EC) has still not reached full scale, while Fujiwara Reiki, which was acquired and made a subsidiary in October 2019, also contributed, so net sales increased 12.6% in housing facilities projects.

(3) Renewable energy business

In the renewable energy business, net sales increased 29.4% YoY to ¥904mn and operating income increased 35.7% to ¥347mn. In the mainstay business of power sales from solar power facilities, net sales rose 39.3% to ¥793mn. In the project for power sales from solar power generation, in which solar panels are installed on the roofs of the DCM Group's stores, 129 sites have become operational.

(4) Other businesses

In other businesses, net sales decreased 28.6% YoY to ¥1,312mn and operating income increased 12.4% to ¥171mn. Net sales in the residential drinking water business increased 10.4%, due to nesting demand caused by COVID-19. Civil works' net sales declined 47.0% as all shares of DAD were sold in July 2020 and it ceased to be a consolidated subsidiary.

2. Financial position and cash flow

(1) Financial position and cash flow

Total assets at the end of FY12/20 stood at ¥27,778mn, a decrease of ¥2,129mn from the end of FY12/19. Current assets decreased ¥1,457mn. Progress was made in the recovery of trade receivables while receivables applicable to percentage-of-completion decreased, and therefore cash and deposits increased. Accounts receivable from completed construction projects decreased ¥973mn, and work in process–construction declined ¥385mn. In non-current assets, investment in solar power generation equipment has passed its peak and property, plant and equipment declined ¥315mn due to the sale of DAD shares. In liabilities, current liabilities decreased ¥2,745mn. Main items included notes and accounts payable–trade (-¥360mn), short-term loans payable (-¥1,271mn), and advances received on uncompleted construction contracts (-¥839mn). Non-current liabilities increased ¥2,185mn due to the issuance of green bonds (¥3,000mn). The total of long-term and short-term interest-bearing debt increased ¥1,026mn to ¥12,555mn.

Consolidated balance sheet and financial ratios

(¥mn)

	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	Change
Current assets	14,519	15,033	18,763	18,906	17,448	-1,457
(Cash and deposits)	3,430	4,517	6,013	7,165	7,896	730
(Trade receivables)	8,329	7,490	9,230	8,562	7,116	-1,445
(Inventories)	2,206	2,487	2,998	2,573	2,063	-510
Non-current assets	5,504	6,592	8,272	11,001	10,330	-671
(Property, plant and equipment)	4,115	4,726	6,337	8,362	8,047	-315
(Intangible assets)	84	85	547	1,032	742	-290
(Investments and other assets)	1,304	1,780	1,388	1,606	1,540	-65
Total assets	20,023	21,626	27,036	29,907	27,778	-2,129
Current liabilities	12,302	13,259	18,863	18,624	15,878	-2,745
(Notes and accounts payable–trade)	3,586	3,761	4,324	3,889	3,528	-360
(Loans payable, corporate bonds, etc.)	5,893	6,743	10,743	10,922	9,657	-1,265
Non-current liabilities	1,531	1,542	1,454	2,079	4,265	2,185
(Corporate bonds, loans payable, etc.)	1,135	873	349	958	3,209	2,251
Total liabilities	13,834	14,801	20,318	20,704	20,144	-560
(Interest-bearing debt)	6,911	7,546	11,010	11,529	12,555	1,026
Total net assets	6,189	6,824	6,717	9,203	7,634	-1,569

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

At the end of FY12/20, cash and cash equivalents had increased by ¥910mn compared to the end of the previous fiscal period to ¥8,035mn. Net cash provided by operating activities was ¥2,358mn. Although a round of investment in solar power generation equipment was completed, net cash used in investing activities was ¥3,048mn, due to purchase of shares of subsidiary's preferred shares (-¥2,044mn), and therefore free cash flow was -¥690mn. Despite the repayments of long-term loans payable, net cash provided by financing activities was ¥1,619mn due to the issuance of green bonds.

Consolidated statements of cash flows

(¥mn)

	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	Change
Net cash provided by (used in) operating activities	608	1,867	-105	2,416	2,358	-57
Net cash provided by (used in) investing activities	-104	-121	-1,402	-2,846	-3,048	-202
Net cash provided by (used in) financing activities	-451	-634	3,030	1,642	1,619	-22
Cash and cash equivalents at end of term	3,332	4,456	5,969	7,124	8,035	910

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

(2) Financial ratios

Looking at ratios indicating financial stability, the current ratio rose by 8.4 percentage points (pp) compared to the end of the previous period to 109.9%, while the equity ratio increased by 3.6pp to 27.5%. Due to the active investment in solar power generation systems, these ratios had trended downward until FY12/19, but are expected to improve in the future as the period to recoup the investment began in FY12/20.

ROE (return on equity), a comprehensive management indicator, was 6.5%, falling below the 10% level where it had remained for four consecutive periods. Each of its components, the profit margin, asset turnover, and financial leverage, declined. The net profit margin fell due to temporary factors, including the rise in the effective tax rate and the recoding of an extraordinary loss. The ordinary income margin rose 0.3pp YoY, while return on assets (ROA) increased slightly, up 0.1% YoY to 4.2%.

Financial ratios

(Units: %, times, multiple)

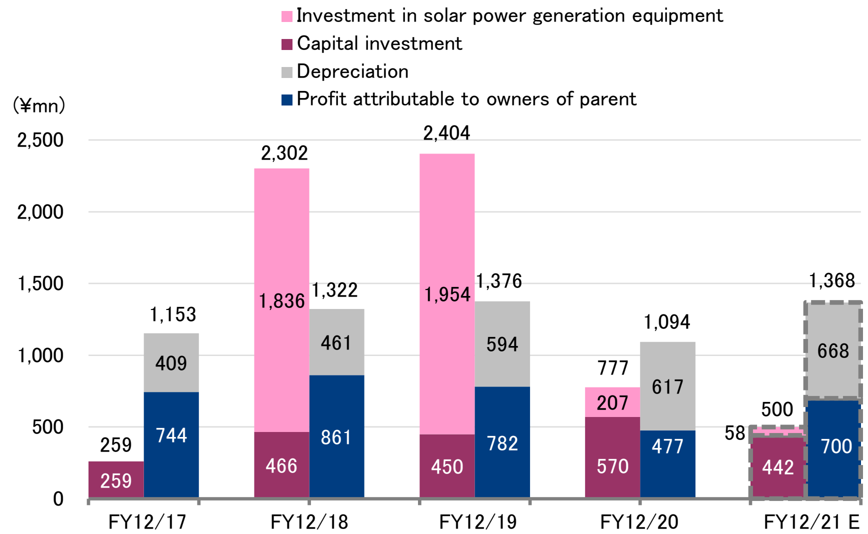
	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	YoY
[Profitability]						
ROE	10.9%	11.4%	12.7%	11.3%	6.5%	-4.8pt
ROA	5.8%	6.4%	4.5%	4.1%	4.2%	0.1pt
Ordinary income margin	3.5%	4.0%	3.0%	3.2%	3.5%	0.3pt
Net profit margin	2.0%	2.2%	2.4%	2.2%	1.4%	-0.8pt
Total asset turnover rate (times)	1.66	1.61	1.49	1.26	1.20	-0.05pt
Financial leverage (multiple)	3.24	3.17	4.03	4.18	3.17	-1.01pt
[Stability]						
Current ratio	118.0%	113.4%	99.5%	101.5%	109.9%	8.4pt
Equity ratio	30.9%	31.6%	24.8%	23.9%	27.5%	3.6pt

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

(3) Trends in capital investment

The annual capital investment amount had been within the range of cash flow, which is the sum of profit attributable to owners of parent and depreciation, but it significantly exceeded this range during the period in which the investment in the renewable energy business became fully fledged. Investment related to the solar power business was concentrated in two periods, FY12/18 (investment amount: ¥1,836mn) and FY12/19 (¥1,954mn). After the completion of these rounds of investment, the investment budget was reduced to ¥207mn in FY12/20, and the plan is to further reduce it to ¥58mn in FY12/21. Solar panel installations for 130 DCM Group home center stores have been completed in a comparatively short period as it uses the roofs of the existing stores and there is no need to newly develop sites. In the solar power business, there is little additional investment and operating costs, and it will stably generate earnings over the long term.

Capital investment, profit attributable to owners of parent, depreciation



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

(4) Issuance of green bonds and sustainability financing (share acquisition rights and a backup loan)
Green bonds are debt securities issued for the purpose of raising funds for initiatives to solve environmental issues, such as global warming mitigation measures and renewable energy. According to the Ministry of the Environment, the number and total value of issuances of green bonds by domestic companies and others came to 11 issuances worth ¥222.3bn in 2017, 34 issuances worth ¥536.4bn in 2018, 58 issuances worth ¥823.8bn in 2019, and 77 issuances worth ¥1,017bn in 2020 (source: Green Funding Portal (Ministry of the Environment)).

At the end of February 2020, the Company issued 10-year green bonds with a total value of ¥3bn. The investing institutions include two regional banks and three mega banks. The procured funds will be used for the solar power business and the compact wind power business within the renewable energy business. These efforts are part of the Company's ESG management activities, which aim to promote a better environment and achieve a sustainable society. As a third-party assessor, DNV GL Business Assurance Japan assessed the qualifications of the Company's green bonds.

Also, in August 2020, the Company issued sustainability share acquisition rights and entered into a contract for a sustainability loan of ¥2.1bn for sustainability financing, which is a means of raising funds to allocate to projects that will contribute to the environment and society. The issuance conditions for the share acquisition rights are 2.5 million dilutive shares, a total planned fund-raising amount of ¥2.1bn, an initial exercise price of ¥875, and an exercise period of three years. The lower limit of the exercise price is ¥805, but it can be revised to ¥725 through a resolution of the Company's Board of Directors. Therefore, it is possible that, depending on the share price, the fund-raising amount may not reach the initially anticipated amount of ¥2.1bn. To ensure that there are no delays to the capital investment plan even in the event of such a situation, ¥2.1bn has been set as a backup loan. The purposes of the fund-raising are to progress the water-related infrastructure business overseas (China, Southeast Asia, and India), which is one of the Company's growth strategies in the environmental equipment business; effectively use water resources in the Asia and Africa regions; and prevent and manage pollution. It is utilizing the funds raised through sustainability financing with the aims of promoting environmental improvements and realizing a sustainable society, and at the same time, to accelerate its growth strategies.

Outlook

Forecasting a 2.2% YoY increase in net sales and a 10.0% increase in operating income

For FY12/21, the Company is forecasting net sales of ¥35,400mn, up 2.2% YoY; operating income of ¥1,150mn, up 10.0%; ordinary income of ¥1,300mn, up 7.3%; and profit attributable to owners of parent of ¥700mn, up 46.7%.

Forecasts for YoY changes in net sales by business are an increase of ¥1,169mn in the environmental equipment business, an increase of ¥151mn in the household equipment business, an increase of ¥87mn in the renewable energy business, and a decrease of ¥657mn in other businesses. The reason for the sales decrease in other businesses is the decline from civil works and rent income following the sale of DAD shares. The environmental equipment business is a recurring-income business, and it is expected to stably grow through the increase in sales of domestic wastewater treatment systems. Overseas net sales are forecast to increase 72.7% YoY to ¥1,731mn, assuming growth centered on India. In the household equipment business, the outlook is for sales to recover as a whole and the acquired subsidiary to contribute to earnings. In the renewable energy business, the solar power generation equipment that became operational in the previous period is expected to contribute over the full fiscal year, but even so, it seems that the growth rate will be sluggish.

Outlook for FY12/21 consolidated results

(¥mn)

	FY12/20		FY12/21		YoY	
	Results	Ratio to sales	Forecast	Ratio to sales	Change	%
Net sales	34,647	-	35,400	-	752	2.2%
Environmental equipment business	17,687	51.0%	18,857	53.3%	1,169	6.6%
Household equipment business	14,742	42.6%	14,894	42.1%	151	1.0%
Renewable energy business	904	2.6%	992	2.8%	87	9.7%
Other businesses	1,312	3.8%	655	1.9%	-657	-50.1%
Gross profit	7,336	21.2%	7,940	22.4%	603	8.2%
SG&A expenses	6,291	18.2%	6,790	19.2%	498	7.9%
Operating income	1,045	3.0%	1,150	3.2%	104	10.0%
Environmental equipment business	1,199	6.8%	1,461	7.7%	261	21.8%
Household equipment business	313	2.1%	417	2.8%	103	33.2%
Renewable energy business	347	38.4%	335	33.7%	-12	-3.6%
Other businesses	171	13.1%	92	14.0%	-79	-46.4%
Adjustment	-987	-	-1,155	-	-	-
Ordinary income	1,211	3.5%	1,300	3.7%	88	7.3%
Profit attributable to owners of parent	477	1.4%	700	2.0%	222	46.7%

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

Medium- to long-term growth strategy

Formulated the new medium-term business plan, PROTECT × CHANGE

1. Medium-term business plan

The medium-term business plan Make FOUNDATION Plan was interrupted while it was being implemented by the impact of COVID-19. Therefore, the Company has formulated PROTECT × CHANGE as the new medium-term business plan to cover the three-year period from FY12/21 to FY12/23. The aim is to become the embodiment of the corporate slogan. Due to COVID-19, there are many undetermined factors that will affect results in the medium to long term, so at the current time, the Company has not announced numerical targets for net sales or profits for the final fiscal year of the new medium-term business plan.

The Company is maintaining the previous six growth strategies. In addition to "Convert from a stable trajectory to a growth trajectory," "Accelerate overseas business development," "Grow the recurring-income businesses," "Technological capabilities and product development capabilities," "Renewable energy," and "Progress M&A," it has added "Improve productivity (Promote IT)" and "Develop human resources" toward establishing a company foundation. The change is that "Promote IT" has become not only a method to improve productivity, but has also been elevated to a growth strategy.

Review of medium-term business plan Make FOUNDATION Plan and additional growth strategies

Growth strategies	
Transformation from stability to growth ・Expand the commercial area/new transaction stores by entering Tokyo and Osaka ・Discover and expand the lineup of various new specialty products ・Introduce central buying – build a foundation to reduce costs	Technological strength/Product development capability ・Launch sales of new types of Johkasou in Japan (XF-type, XH-type) ・Progress measures for the development of Johkasou with overseas specifications that take into account the differences in the properties of water pollution in various countries
Acceleration of overseas business expansion ・Full-scale local production in India, greatly expand the sales agency network, progress government certification and joint research ・Fully fledged operations of the joint-venture business in China	Renewable energy ・Reduce the environmental burden by using existing stores of the DCM Group/realizing bases for efficient solar power generation ・In the compact wind power generation business, launch power sales at 10 sites nationwide
Grow the recurring-income businesses ・Expand bulk orders for maintenance, convenience stores, restaurant chains, etc. ・Build new IT systems to respond to management work for legal inspection requirements	Pursuit of M&A opportunities ・Carry out the first M&A in the household equipment business, have it contribute to consolidated results through synergies, including handling of new products

In the medium-term business plan, elevate "Promote IT" to a growth strategy, promote growth from the competitive advantages of the IT system and collection, analysis, and utilization of data

Establish a company foundation	
Improve productivity "Promote IT" ・Launch the IT Promotion PJ, start collecting in-company information toward improving productivity ・During the COVID-19 pandemic, promote remote working and online meetings that incorporate non-face-to-face and contactless workstyles ・Utilize the domestic business/overseas business to progress preparations to capture demand that will increase in the post-coronavirus period	Develop human resources ・Introduce a personnel system to build an environment that is flexible and easy to work in for diverse human resources ・Launch PJ with the aim of creating a sense of unity as a group, in which there are concerns about overextension due to rapid business expansion ・Discover in-company human resources in combination with the launch of a new business creation program

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

2. Growth strategies

New developments in each business segment are described below.

Policies by segment in the new medium-term business plan

Environmental equipment business
- Establish an organization structure that is highly productive
- Develop environmentally conscious, high-quality products
  -Next compact combination-type Johkasou, etc.
- Improve overseas results
  -Do not pursue sales but instead place emphasis on improving quality and responding diligently to each and every situation

Household equipment business
- Establishing a remodeling business on the axis of the e-commerce business
- Utilize M&A to expand the commercial area and products handled
- In the Kanto and Kansai areas, expand projects receiving special demand, such as for public facilities and environmentally conscious products

Renewable energy business
- Build an organization to drive a carbon-free society
- Discover high-value-added businesses and products for the post-FIT period
- Through the Business Development Department, discover new businesses and products that will contribute to measures for climate change

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

(1) Environmental equipment business

a) Promote IT in the domestic market

In the domestic environmental equipment business, the sewerage infrastructure penetration rate is high and the Company is aware that the market will contract over the long term due to Japan's declining population. Therefore, it is aiming to establish an organizational structure that is highly productive through promoting IT. Although the Company has been engaged in water treatment-related operations for many years, it has not saved related data in a format that could be used effectively. Therefore, employees have undergone training related to data science and artificial intelligence (AI), and going forward, it will strengthen its approach of utilizing data for management.

There are many companies that are developing a network of multiple stores, such as home improvement centers, convenience stores, and restaurants, and their management is complicated, including for the legal inspections and inspection records of Johkasou and inspection records of wastewater treatment equipment. The Company, which undertakes these tasks in its maintenance business, has introduced a new IT system to upgrade its legal inspections management system so that it meets the needs of clients. It utilizes an IT system to collect and aggregate daily records relating to maintenance, which not only increases the governance of the chain's headquarters, but also reduces the work burden. It enables the Company to avoid losing business opportunities, including by quickly providing proposals for repair and expansion work. Leveraging the competitive advantages of the IT system, it is progressing a strategy of capturing chain headquarters. It is also aiming to improve productivity and profitability through the management of facilities, construction work, and business partners based on data.

b) Company characteristic of leveraging its power in opening up overseas markets

Of the 17 Sustainable Development Goals (SDGs) adopted at the United Nations summit, the Company is deeply involved in No. 6 "Ensure access to water and sanitation for all" through its environmental equipment business. The situation in emerging countries in Asia and Africa is that environmental pollution due to water pollution cannot be overlooked, so new wastewater treatment standards are being introduced. In the medium- to small-scale wastewater treatment-related field in which the Company is involved, local companies do not possess the technological level to clear the standards that have been made stricter. Even for overseas companies that possess advanced technological capabilities, they are unable to provide cost-competitive products suited to local water conditions in markets they have not yet entered. The Company solves these problems and is signaling a new start by opening up new markets.

Since FY2013 and as part of the Japanese government's growth strategy, the Ministry of the Environment has been conducting the Asia Water Improvement Model Project in order to support the entry of Japanese companies in the water business market in Asia. In FY2014, the Company, as a manufacturer, participated in the Household Wastewater Treatment Project by installing Johkasou in Malaysia (Johkasou model). The Environmental Infrastructure Overseas Business Development Basic Strategy, which was formulated by the Ministry of the Environment in July 2017, indicates Japan's policy of providing technologies to developing countries and support to resolve environmental problems, which will lead to business development for Japanese companies. Johkasou was selected as one of the six fields.

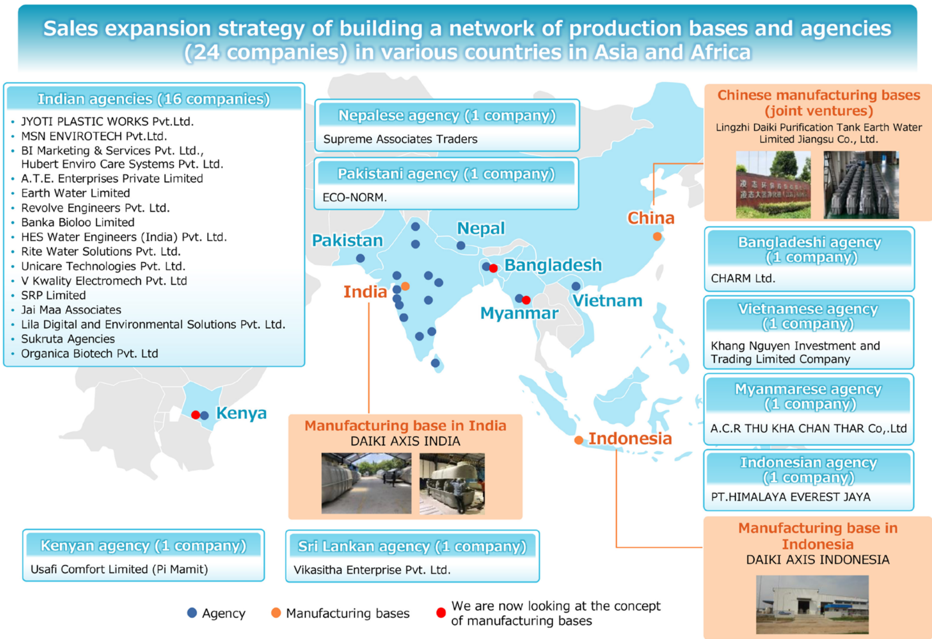
The history of the Company leveraging its characteristics to open up the India market and develop products is described in detail below.

In India, the sewerage infrastructure penetration rate is no more than around 30% and centralized wastewater treatment facilities are insufficient. Installations of Johkasou have been highly evaluated both in terms of costs and speed, as they prevent insufficient capacity for the treatment of sewage and household wastewater from impeding the speed of urbanization. Initiated by Prime Minister Narendra Modi in May 2019, the Ministry of Water Environment (called the Ministry of Jal Shakti in India) was created through the integration of the Ministry of Water Resources, Ministry of River Development, and Ministry of Water and Public Sanitation. This large-scale ministry is leading various initiatives, including the Namami Gange Project (the project to clean the River Ganges) and Zero Outdoor Excretion Movement to promote the spread of use of toilets. The Namami Gange Project is the flagship initiative in the Indian government's Water Environment Improvement Plan. Wastewater goes untreated in many of the 100 tributaries that flow into the River Ganges. In general, household wastewater is a major culprit behind the pollution of rivers, lakes, and seas. In the past three years, the Namami Gange Project has been allocated a budget of more than ¥450bn and only around 25% of it has been consumed. Johkasou are considered to be an effective method.

In India in October 2014, the Clean India project set the target of installing toilets in homes, elementary and junior high schools, parks, and other locations. In April 2017, throughout India as a whole, the government strengthened regulations for BOD (biochemical oxygen demand), which expresses the pollution status of water quality, from the previous value of BOD 30 to BOD 10 for commercial facilities with a total floor area of more than 18,000m^2 and residences larger than 2,000m^2. Existing septic tanks cannot comply with these strengthened regulations.

The Company has grown this business in stages. In July 2016, it donated Johkasou to the Indian government and appealed to it on the basis of product quality. Johkasou (processing capacity: 10m^3/ day) were installed at three sites to treat wastewater from public toilets in villages, and as test marketing for a plastics plant. In July 2018, it established DAIKI AXIS INDIA PRIVATE LIMITED as a wholly owned subsidiary. The Johkasou that were imported from its own plant in Indonesia have been replaced by locally produced products. As phase one of business development in India, it has outsourced production to a local plastic products manufacturer in consideration of both the personnel aspect and reducing the time required. The outsourcing party is the Company's agency, and the Company provides it with manufacturing equipment, such as molds, and technological guidance. The production items are capsule-type Johkasou able to support 20 to 50 households. The production capacity was doubled from the initial 100 to 200, but currently due to insufficient supply capabilities, some are being imported from Indonesia. The second plant, which is currently under consideration, would more than double the production capacity of the current plant and add the large, cylinder-type Johkasou to the production items. The business in India is currently being operated by an agency network of 16 companies. Due to the rising costs of transporting Johkasou, the Company also has in its sights building third and fourth production bases in order to construct a dispersed production system.

Overseas business development



Source: The Company's results briefing materials

Major progress is expected in overseas markets, particularly in India. Received orders for multiple projects from the Delhi government

The Company developed its business significantly in India in 2020. In October, its Indian subsidiary acquired Green Product Certification, which is an eco-certification, for its India-manufactured Johkasou. This was the first eco-certification in the wastewater treatment sector. Acquiring this certification not only improves the Company's name recognition in the Indian market, but will also lead to adoption of Johkasou in government-related buildings with energy-saving specifications and environmentally conscious-type buildings in general.

In November, the Company's India-manufactured Johkasou obtained recommendation approval from India's Ministry of Water Environment. It was the first recommendation approval by the Indian central government for dispersed wastewater treatment. In India, there are regional differences in the ways of thinking about wastewater treatment and treatment methods, so even for Johkasou, which had been highly evaluated in other regions, it was necessary to adopt an approach for each respective region. The Company was able to obtain the recommendation approval by approaching the Indian central government and central research institutions and continuously submitting data, such as from water quality inspections conducted with actual demonstration equipment.

The effects of this recommendation approval started appearing at an early stage, and in the following month, the Company received requests for proposals for multiple projects from the Delhi government that directly administers the region and is not part of the state government, and these requests led to orders. Currently, in an order from the Dehli Development Authority for a project worth a total of approximately ¥100mn, the Company has provided Johkasou (10m^3: 11 units, 25m^3: 5 units, 50m^3: 7 units) in order to process and reuse wastewater from toilets and handwashing facilities in parks and raw public sewage water. Under the authority's management are 1,100 parks with the same target plan, and the Company is providing it with new proposals. Also, throughout India as a whole, it has been reported that the potential market scale is 100 times this scale. It would seem that the Company can obtain many orders from this current order and the results of its operations have already started to appear. Through this recommendation approval, even for local government bidding projects, it will be able to make proposals in which all aspects of Johkasou for dispersed wastewater treatment are pushed to the fore, while it will also be able to appeal to the private sector.

In the same month that the Company obtained the recommendation approval from the Ministry of Water Environment, it received an offer from the Indian Institute of Technology and concluded an agreement with it for a demonstration experiment and joint research. In India, the dispersed wastewater treatment method has not been established, so it will conduct a demonstration experiment to add nitrogen processing to products from Indian plants and for two advanced processing models that are used in Japan. They will conduct joint research for improvements that are tailored to the usage environments in India. The Indian Institute of Technology is positioned as a research institute of national importance and is recognized internationally for its high-level research. As with India, it is considered that the demonstration experiment and joint research will also lead to major business development for the Daiki Axis Group in places such as the Middle East, Asian countries, Europe and the United States in the future.

History and plan for the India business

Date	Summary
April 2016	Concluded the first sales agency agreement with one company in India
July 2016	Donated Johkasou to the Indian government and installed them in public toilets in parks and villages. Conducted test marketing for plant wastewater Concluded a regional sales agency agreement with four companies in India
July 2018	Newly established DAIKI AXIS INDIA PRIVATE LIMITED as a joint venture for the Johkasou business in India and made it a subsidiary
Spring 2019	Production outsourcing party Jyoti Plastics Works Pvt. Ltd. started production of the capsule-type Johkasou (current annual production capacity: 200 units)
September 2019	Increased investment in DAIKI AXIS INDIA PRIVATE LIMITED
September 2019	Established Daiki Earth Water Private Limited Company and launched the BOT/BOO-method Water KIOSK business
October 2020	Indian subsidiary acquired Green Product Certification, an eco-certification, for India-manufactured Johkasou
November 2020	Indian subsidiary obtained recommendation approval from the Indian Ministry of Water Environment for its India-manufactured Johkasou Concluded an agreement for a demonstration experiment and joint research with the Indian Institute of Technology relating to dispersed wastewater treatment using the Company's products
December 2020	Received requests for proposals and orders from the Delhi Development Authority for multiple projects using the Johkasou with recommendation approval
February 2021	Concluded an agreement with Dehradun Smart City Ltd., a smart city public corporation, for the BOT-method Water KIOSK business Won the Gold Award in the Innovation in Water Technology Sector of the Federation of Indian Chambers of Commerce and Industry's 8th Water Awards
Planned	Is considering establishing a second plant, which will add medium-sized, cylinder-type Johkasou and more than double the production capacity of the current plant

Source: Prepared by FISCO from the Company's news releases, securities report, and results briefing materials

In September 2019, the Company launched the Water KIOSK business in India. The Water KIOSK business involves installing drinking water purification equipment, such as in public facilities and train stations, and selling this drinking water for a fee in urban areas where the quality of tap water is not suitable for drinking. The Company conducts a business in Japan to convert underground water to drinking water. It established the joint venture Daiki Earth Water Private Limited Company (the Company's investment stake: 74%) with its Indian agency Earth Water Limited. Within India, it is developing the wastewater treatment business and drinking water sales business through Water KIOSK using the BOT*1 and BOO*2 methods.

*1 BOT (build-operate-transfer) is a method to transfer the ownership of facilities that had been built, maintained, and operated by the private sector to the public after the end of the contract period.
*2 BOO (build-own-operate) is a method in which facilities had been built, maintained, and operated by the private sector and continue as private-sector facilities even after the end of the contract period, or in which the facilities are dismantled and removed and the business is ended.

In February 2021, the Company concluded an agreement for a Water KIOSK business using the BOT method with a public corporation promoting the smart city concept in Dehradun City, a city on the high plains of Uttarakhand State located to the north east of the capital Delhi. The forecast is for net sales of ¥110mn over 5 years from installations at 24 sites (24 units). After the completion of the 5-year agreement, the plan is to continue by outsourcing management to the Company's subsidiary through a 2-year renewal of the management agreement. India's smart city concept is a national project for the high-quality redevelopment of 100 cities into sustainable cities. The Company expects the market scale of the Water KIOSK business to exceed 10,000 units in smart cities alone, and surpass 500,000 units when including business deployment in other cities.

In addition, in the same month, the Company won the First Prize (Gold Award) in the Innovation in Water Technology Sector in the Federation of Indian Chambers of Commerce and Industry's 8th Water Awards. Five of the total seven sectors are for regional local governments, and in the remaining two sectors, awards were won by the Company and other general companies. Winners of these awards are chosen from among several hundred companies recommended by the federation's evaluation committee members and other members throughout India, based on the extent of their contribution to India's water environment and technological completeness, and only one company is chosen for the award in each sector. This was the first time a Japanese company has won the Gold Award.

Other than in India, the Company received an order for Johkasou and seawater desalination equipment in relation to a JICA support project for Iraq in March 2021. The ordering party was the project's prime contractor, JGC HOLDINGS CORPORATION <1963>. Both the Johkasou and seawater desalination equipment have a daily processing capability of 3,600m^3. The monetary value of the order was not disclosed, but according to the Company, it is a large-scale project. The delivery period is scheduled for December 2021. So Johkasou, a product certified by the Japanese government, have been recognized as being able to demonstrate their capabilities even in the harsh environment of the Middle East.

The subsidiary Sylphid is participating in the Ministry of the Environment's Technology Development and Demonstration Project for Low-Pressure Wind Power Generation Equipment

(2) Renewable energy business

With the aim of strengthening the renewable energy business, this business has been integrated into a subsidiary. In 2012, the Company acquired all shares of Sylphid Inc., which develops, manufactures, and sells compact wind power equipment, and made it a subsidiary. Since 2019, it has aimed to increase work efficiency and stabilize earnings by consolidating development and management of wind power and solar power generation equipment into this subsidiary. In July 2021, it plans to transfer the biodiesel fuel business from the head office to the same subsidiary. In July 2021, the name of this subsidiary will be changed to Daiki Axis Sustainable Power Co., Ltd.

In FY12/19, the Company launched a compact wind power generation business. Compact wind power generation of less than 20kW that had already been applied for by FY2017 carries the high FIT purchase price of ¥55/kWh. In FY2018, the purchase price in the same classification was revised to ¥20/kWh, the same as that for above 20kWh. There had been approximately 8,000 IDs already applied for at the high purchase price, but because of the expiration date, it is necessary to start a business by July 2022. The Company started the business by first receiving an ID from a business that had already acquired an ID in Kagoshima Prefecture, and by March 2021, it had started operations at 7 sites in Hokkaido and 5 sites in Aomori Prefecture. Centered on northern Japan where wind conditions are favorable, it is aiming to operate 70 sites nationwide. The forecasts are for power sales revenue per site of ¥2mn to ¥2.5mn and an operating income margin of 25% to 30%.

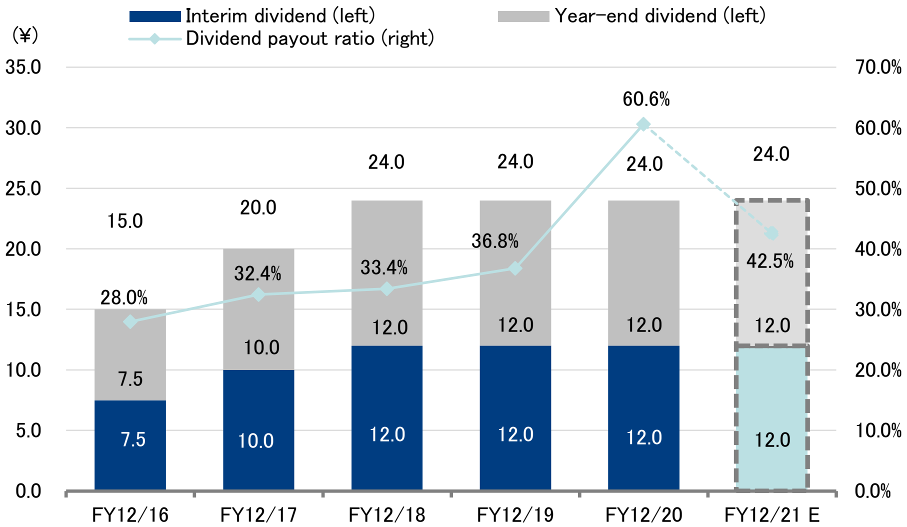
For the development of compact wind power equipment, Zephyr Corporation, Ricoh Japan Corporation (a subsidiary of Ricoh Company, Ltd. <7752>) and subsidiary Sylphid are participating as joint implementors in the Technology Development and Demonstration Project for Low-Pressure Wind Power Generation Equipment, which is part of the Ministry of the Environment's 2020 Project to Strengthen CO_2 Emission Reduction Initiatives and Induction-Type Technology Development and Demonstration. Zephyr will be responsible for the overall design of the wind turbine, design of the wing, conversion of automotive parts, field testing, and wind turbine control algorithm. Ricoh Japan will develop a maintenance support tool that utilizes AI, while the Company's subsidiary will be responsible for the wing's design support and production. Based on regional disaster prevention measures, the movement to create an independent grid that utilizes self-managing lines and the existing power distribution network, and the realization of a shift towards consuming self-generated renewable energy within business sites, they will newly develop wind power generation equipment with a rated output of 50kW, which is highly acceptable within society. They will jointly work to spread the use of wind power as a power source comparable to solar power generation. This business was launched in January 2021, and by April 2023, they will develop wind power generation equipment that meets the needs described above, and verify aspects such as the stability of the power supply, its sound impact, and economic rationality.

Shareholder return policy

Has newly introduced a shareholder benefits program, is enhancing returns to shareholders

The Company's shareholder return policy is premised on a consolidated dividend payout ratio of 30%. In FY12/20, the annual dividend per share was ¥24, the same as in the previous fiscal year, but due to factors such as the recording of an extraordinary loss, the dividend payout ratio rose to 60.6%. In FY12/21, it plans to once again pay an annual dividend per share of ¥24 (interim dividend: ¥12) for a dividend payout ratio of 42.5%.

Dividend per share (after the split) and dividend payout ratio



Note: A 2-for-1 stock split of common shares was conducted on July 1, 2017, and figures for FY12/17 and prior have been retroactively adjusted
Source: Prepared by FISCO from the Company's results briefing materials

From the record date of the end of December 2020, the Company newly established the Daiki Axis Premium Benefits Club and enhanced returns to shareholders. On this website, shareholders can exchange benefit points and shared shareholder benefit coins, which can be combined with benefit points from other companies that have also introduced premium benefits clubs, for more than 2,000 products, including food, electrical goods, gifts, travel and experiences.

Shareholder benefits program

Number of shares held	Shareholder benefits		
500 to 599 shares	3,000 Premium Benefits Club points (1.1 times if the shares have been held for more than one year. Applies to all below)		
600 to 699 shares	4,000 points	1,000 to 1,999 shares	8,000 points
700 to 799 shares	5,000 points	2,000 to 2,999 shares	20,000 points
800 to 899 shares	6,000 points	More than 3,000 shares	40,000 points
900 to 999 shares	7,000 points		

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

Information security measures

As information security measures, the Company has developed information infrastructure facilities and 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 provided to all employees each year through e-learning and security measures are making inroads in the organization.

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