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. 1H FY12/21 results and FY12/21 forecasts

In 1H FY12/21 (hereafter, the period under review), net sales increased 9.6% year on year (YoY) to ¥19,117mn and ordinary income rose 14.2% to ¥864mn, achieving record-high results for a fiscal half year. The Company has left unchanged the FY12/21 full-year forecasts for net sales of ¥35,400mn (up 2.2% YoY) and ordinary income of ¥1,300mn (up 7.3%), so the rates of progress for these forecasts in the 1H reached an unprecedented high, at 54.0% for net sales and 66.5% for ordinary income. The averages for the last seven fiscal years were 49.8% for net sales and 55.1% for ordinary income. The 2H forecasts are for net sales to decrease 5.4% YoY and ordinary income to decline 4.2%, and to decrease 14.8% and 49.7%, respectively, compared to the 1H. The main reason for this is that 1H FY12/21 included projects that were delayed from the previous period due to the novel coronavirus pandemic (hereafter, COVID-19). However, it is difficult to imagine conditions in which profits decline by half in the 2H, and at FISCO we think it is highly likely that the full-year forecasts will be upwardly revised.

2. Will make a major leap forward in India

The Daiki Axis Group started Johkasou test marketing in India in 2016. In 2018, it established a subsidiary in Mumbai in the west of India and collaborated with it as the first company in its distributor network, thereby starting local production through outsourced production. In India in 2020, it acquired Green Product Certification, which is an eco-certification, for its Johkasou, the first such certification in the wastewater treatment sector. Its India-manufactured Johkasou also received recommendation approval from India's Ministry of Water Environment. This was the first recommendation approval by the Indian central government for dispersed wastewater treatment, adding momentum to acquisitions of orders, while the Company has also progressed a demonstration experiment and joint research with the Indian Institute of Technology. Moreover, in 2021, it won the prestigious First Prize (Gold Award) in the Innovation in Water Technology Section of the Federation of Indian Chambers of Commerce and Industry's 8th Water Awards. This marked the first time that a Japanese company had received the Gold Award.

The number of companies in the Company's distributor network within India increased from 5 companies at the end of FY12/18 to 20 companies at the end of the period under review. In September 2021, the scale of monthly production from outsourced production rose from 20 units to 30 units, while in addition, in June of the same year with the aims of increasing production capacity and reducing costs, it established a manufacturing subsidiary in the north of India close to the capital Delhi. The Company's newly constructed plant is scheduled to start operations in June 2022 initially with an annual production scale of 350 units, which is anticipated to be gradually expanded to annual production of 600 units. This will increase the annual production capacity, which started from local production of 100 units in 2019, to 960 units. The items produced will be the capsule-type Johkasou produced up to the current time, and also medium-sized cylindrical Johkasou.

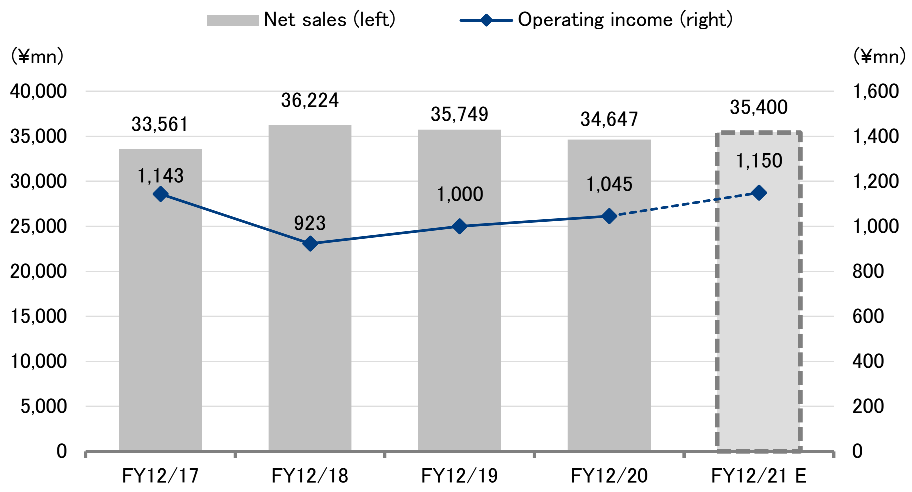
3. Dividend policy and the TSE's new market categories

In FY12/21, the Company intends to maintain the annual dividend per share at ¥24 (interim dividend of ¥12, period-end dividend of ¥12) for a consolidated dividend payout ratio of 42.5%. Regarding the reorganization of market categories that the Tokyo Stock Exchange (TSE) plans to implement in April 2022, the Company announced on November 12, 2021 that it had been selected for the Prime Market.

Key Points

- In 1H FY12/21, achieved record-high sales and profits for a fiscal half year
- Will make a major leap forward in India with the launch of its own plant
- In the new market categories, has been selected for the Prime Market

Results trends



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 (Environmental, 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 sewage and household wastewater on-site, and is therefore effective domestically and overseas. In addition to the business to convert underground water to drinking water in Japan, it is conducting a business overseas to provide drinking water in developing countries where access to safe drinking water can be difficult.

Japanese Prime Minister Yoshihide Suga (who was prime minister at the time) 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 approximately 130 stores of the DCM Group. It is progressing the power sales business through compact wind power equipment, targeting 70 sites nationwide. 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 its 12 directors, 5 are outside directors.

According to the Global Sustainable Investment Alliance (GSIA)'s 2020 report, global ESG investment had reached approximately US$35tn in 2020 from approximately US$22tn in 2016, and in Japan, it grew from ¥57tn in 2016 to ¥310tn in 2020. 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 favorable transactions between the two companies are continuing.

Daiki Axis was officially founded in 2005, but has developed, 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 focused on 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.

As of 1H FY12/21, the Daiki Axis Group is comprised of the Company, 14 consolidated subsidiaries (7 in Japan and 7 overseas), 1 non-consolidated subsidiary (Japan) and 2 equity method affiliates (overseas). With M&A as a growth strategy, it has acquired 9 of its consolidated subsidiaries. It has conducted M&A and established subsidiaries to strengthen the environmental equipment business, open up overseas markets, and enter new fields.

In FY12/21, in May the Company established an environmental equipment business subsidiary in Sri Lanka and it has entered the scope of consolidation. Also, in June it established a Johkasou production company in India, while it acquired all the shares and made subsidiaries of Sanei Ecohome Inc. (Fujisawa City, Kanagawa Prefecture), which conducts the design, construction, sale, and maintenance and management of solar power generation systems in September, and of Alumi kobo Hagio Co., Ltd. (Niihama City, Ehime Prefecture) which conducts the installation and sales of residential window sash and exterior-related equipment in October.

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 Pvt. Ltd.	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 Pvt. Ltd.	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
DAIKI AXIS ENVIRONMENT (PVT) LTD.	May 2021	Establishment	Sri Lanka	Manufacture (assembly) and sales of Johkasou in Sri Lanka
DAIKI AXIS ENVIRONMENT PVT. LTD.	June 2021	Establishment	India	Manufacture and sales of Johkasou in India
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
Alumi kobo Hagio Co., Ltd.	October 2021	Acquisition	Niihama City, Ehime Prefecture	Installation and sales of residential window sash and exterior-related equipment
Renewable energy business				
Daiki Axis Sustainable Power Co., Ltd.*3	April 2012	Acquisition	Tokyo	Development, sales and installation of compact wind power generation equipment, solar power and compact wind power generation businesses
Sanei Ecohome Inc.	September 2021	Acquisition	Fujisawa City, Kanagawa Prefecture	Design, installation, sales and maintenance and management of solar power generation systems

*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 September 2021, it was not included in the scope of consolidation as its numerical impact is negligible.
*3 Company name changed from Sylphid Co., Ltd. in July 2021
Source: Prepared by FISCO from Company materials

Business overview

Development company placing emphasis on water and the environment

In 1H FY12/21, the business scale was net sales of ¥19,117mn and operating income of ¥780mn. Looking at the composition of net sales by segment, the environmental equipment business provided 53.0%, household equipment business 42.9%, renewable energy business 2.4%, and other businesses 1.7%. Operating income and the operating income margin by segment were ¥882mn and 8.7% in the environmental equipment business, ¥293mn and 3.6% in the household equipment business, ¥121mn and 26.8% in the renewable energy business, and ¥63mn and 19.4% 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 has been 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.

To support the implementation of ESG management, financially the Company is utilizing the issuance of green bonds and sustainability financing (share acquisition rights and backup loans) to raise funds. Green bonds are bonds issued to raise funds to solve environmental problems, such as for global warming measures and renewable energy. At the end of February 2020, the Company issued 10-year green bonds worth ¥3bn. Also, in August 2020, as sustainability financing, which is a method of raising funds to allocate to projects that contribute to the environment and to society, it issued sustainability share acquisition rights and concluded a contract for a sustainability loan of ¥2.1bn. 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 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. But to ensure that there are no delays to the capital investment plan even in the event of such a situation, it has established a backup loan of ¥2.1bn. The purposes of the fund-raising are mainly the "construction and management of Johkasou manufacturing plants" in India and elsewhere overseas, which is one of the Company's growth strategies in the environmental equipment business. It is utilizing the funds raised through sustainability financing with the aims of promoting environmental improvements and realizing a sustainable society, while accelerating its growth strategies.

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.

The composition of net sales in the environmental equipment business in the period under review was 95.7% from Johkasou and wastewater treatment systems and 4.3% from the clean water business. The ratio of net sales from overseas sales increased 0.7 of a percentage point (pp) YoY to 5.5%. Sales from maintenance, which is a recurring-income business, trended steadily and provided 26.3% of 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 Environnment S.A. and SUEZ S.A., 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 1H FY12/21, there were 100 ESCO installations. Breaking down by industry, 29 were for hospitals, 17 for welfare facilities, 15 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.

(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. 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 by 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.

Breaking down net sales in the household equipment business for 1H FY12/21, construction customers provided 70.8%, home center retail materials 12.4%, and housing facilities projects 16.7%. The newly established e-commerce (EC) business is still in its start-up period, with net sales of ¥9mn.

3. Renewable energy business

Breaking down net sales in the renewable energy business for 1H FY12/21, the power sales business through solar power facilities provided 86.4%, biodiesel fuel business 13.1%, and compact wind power generation business 0.5%. 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 been completed at all 130 sites. The FY12/21 outlook is for stable earnings, with net sales of ¥832mn and operating income of around half that 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. In the compact wind power generation business, by the end of the period under review the construction of 12 facilities had been completed, while another 6 facilities are currently being constructed.

4. Other businesses

Following the sale of the subsidiary that conducted the civil works business, other businesses now only consists of the residential drinking water business.

Results trends

In 1H FY12/21, achieved record-high sales and profits for a fiscal half year

1. Overview of 1H FY12/21 results

In the 1H FY12/21 (hereafter, the period under review) consolidated results, net sales increased 9.6% YoY to ¥19,117mn, operating income rose 14.3% to ¥780mn, ordinary income grew 14.2% to ¥864mn, and profit attributable to owners of parent increased 56.3% to ¥440mn. Extraordinary loss had previously greatly increased, including due to the impairment loss related to the goodwill of an overseas subsidiary recorded in 2Q in the previous fiscal year, but it contracted in the period under review and the net profit growth rate increased. In terms of trends by business, the mainstay environmental equipment business and household equipment business drove the results growth.

1H FY12/21 consolidated results

(¥mn)

	1H FY12/20		1H FY12/21		YoY	
	Results	Ratio to sales	Results	Ratio to sales	Change	% change
Net sales	17,443	-	19,117	-	1,674	9.6%
Gross profit	3,792	21.7%	4,008	21.0%	215	5.7%
SG&A expenses	3,109	17.8%	3,227	16.9%	117	3.8%
Operating income	682	3.9%	780	4.1%	97	14.3%
Ordinary income	757	4.3%	864	4.5%	107	14.2%
Profit attributable to owners of parent	281	1.6%	440	2.3%	158	56.3%

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

1H FY12/21 net sales and operating income by business segment

(¥mn)

	1H FY12/20		1H FY12/21		YoY	
	Results	Ratio to sales	Results	Ratio to sales	Change	% change
Net sales	17,443	-	19,117	-	1,674	9.6%
Environmental equipment business	8,653	49.6%	10,134	53.0%	1,481	17.1%
Household equipment business	7,379	42.3%	8,200	42.9%	820	11.1%
Renewable energy business	445	2.6%	452	2.4%	6	1.5%
Other businesses	964	5.5%	329	1.7%	-634	-65.8%
Operating income	682	3.9%	780	4.1%	97	14.3%
Environmental equipment business	584	6.8%	882	8.7%	297	51.0%
Household equipment business	266	3.6%	293	3.6%	27	10.2%
Renewable energy business	182	41.0%	121	26.8%	-61	-33.6%
Other businesses	98	10.2%	63	19.4%	-34	-34.8%
Adjustment	-448	-	-580	-	-131	-

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

(1) Environmental equipment business

In the environmental equipment business, net sales increased 17.1% to ¥10,134mn and contributed 53.0% of total net sales. Segment income increased 51.0% to ¥882mn and the ratio of profit to sales rose 1.9pp to 8.7%. For sales in this segment, Johkasou and wastewater treatment systems contributed ¥9,696mn, or 95.7%, and the clean water business ¥438mn, or 4.3%. In the sales of Johkasou and wastewater treatment systems, domestic sales increased 15.5%, because although capital investment declined due to COVID-19, progress was made on standards to advance the construction of large-scale projects for industrial wastewater treatment facilities. In profits, a large-scale project in Japan contributed. Overseas net sales also grew significantly, up 35.3%, from the contributions of a completion of a large-scale project in China and the growth of sales in India. Overseas sales contributed 5.5% of net sales in this segment. Maintenance sales, including from overseas, were steady, increasing 1.8% for 26.3% of total net sales. In the clean water business, there were three ESCO installation projects and two acquisitions. At the end of the period under review, the number of ESCO contracts had reached 100.

(2) Household equipment business

In the household equipment business, net sales increased 11.1% YoY to ¥8,200mn and segment profit rose 10.2% to ¥293mn. Demand in Japan for housing remodeling continues to be firm and is recovering from the decline due to COVID-19. In terms of the composition of net sales in this segment, construction customers provided 70.8%, home center retail products 12.4%, e-commerce 0.1%, and housing facilities projects 16.7%. Construction customers' sales grew 11.2%. Sales of building construction using the wooden construction method, including lumber from thinning increased, while sales of environmentally conscious products were strong. Subsidies relating to the COVID-19 pandemic had an effect, while demand increased for non-contact toilets (automated opening and closing, automated cleaning, etc.). Replacement demand was also generated, including for lighting and air conditioners at sales stores. Sales of home center retail products rose 15.9% due to the increase in sales figures caused by model changes. In housing facilities projects, sales increased 7.0% from the contributions of freezer/refrigerator and air conditioner projects.

(3) Renewable energy business

In the renewable energy business, net sales increased 1.5% YoY to ¥452mn, but segment profit declined 33.6% to ¥121mn. In the power generation business relating to the mainstay solar power, net sales decreased 1.9% to ¥391mn. In terms of the composition of net sales, the power sales business through solar power facilities provided 86.4%, biodiesel fuel business 13.1%, and compact wind power generation business 0.5%. Equipment has been installed at all 130 of the DCM Group's stores (up 3 stores YoY) and all sites have been connected to the grid. Profits fell in the solar power business with the sale of DAD Co., Ltd.'s business and deterioration of sunlight conditions causing operations of some systems to slumped.

(4) Other businesses

In other businesses, net sales decreased 65.8% YoY to ¥329mn and segment profit declined 34.8% to ¥63mn. Sales and profits both declined due to the sale of the civil works business.

2. Financial position and cash flow

(1) Financial position

At the end of the fiscal period under review, total assets had increased ¥484mn compared to the end of the previous period to ¥28,262mn. Current assets increased ¥582mn. Trade receivables rose ¥921mn due to the progress made in large-scale construction projects, including for wastewater treatment facilities in the environmental equipment business. In non-current assets, investment in solar power generation equipment has passed its peak and property, plant and equipment declined ¥82mn. The capital investment amount in the period under review was ¥249mn (down ¥162mn YoY). Depreciation and amortization increased ¥10mn to ¥318mn and exceeded the capital investment amount. In liabilities, current liabilities declined ¥2,581mn due to repayments of borrowings and corporate bonds. Non-current liabilities increased ¥1,623mn because of a syndicated loan (¥1,000mn) and the issuance of green bonds (¥1,000mn). The total of long-term and short-term interest-bearing debt decreased ¥960mn to ¥11,595mn. Shareholders' equity increased ¥868mn following the exercise of share acquisition rights.

The current ratio improved, increasing 21.1pp compared to the end of the previous period to 131.0%, due to the increase in current assets and decrease in current liabilities. The equity ratio rose 2.9pp compared to the end of the previous period to 30.4%.

Consolidated balance sheet and financial ratios

(¥mn)

	FY12/17	FY12/18	FY12/19	FY12/20	1H FY12/21	Change
Current assets	15,033	18,763	18,906	17,448	18,031	582
(Cash and deposits)	4,517	6,013	7,165	7,896	7,302	-593
(Trade receivables)	7,490	9,230	8,562	7,116	8,037	921
(Inventories)	2,487	2,998	2,573	2,063	2,156	92
Non-current assets	6,592	8,272	11,001	10,330	10,231	-98
Property, plant and equipment	4,726	6,337	8,362	8,047	7,964	-82
Intangible assets	85	547	1,032	742	679	-62
Investments and other assets	1,780	1,388	1,606	1,540	1,587	46
Total assets	21,626	27,036	29,907	27,778	28,262	484
Current liabilities	13,259	18,863	18,624	15,878	13,765	-2,113
(Notes and accounts payable—trade)	3,761	4,324	3,889	3,528	3,687	158
(Loans payable, corporate bonds, etc.)	6,799	10,743	10,922	9,575	6,994	-2,581
Non-current liabilities	1,542	1,454	2,079	4,265	5,889	1,623
(Corporate bonds, loans payable, etc.)	873	349	958	2,979	4,600	1,621
Total liabilities	14,801	20,318	20,704	20,144	19,654	-489
(Interest-bearing debt)	7,546	11,010	11,529	12,555	11,595	-960
Total net assets	6,824	6,717	9,203	7,634	8,608	973
[Stability]						
Current ratio	113.4%	99.5%	101.5%	109.9%	131.0%	21.1pt
Equity ratio	31.6%	24.8%	23.9%	27.5%	30.4%	2.9pt

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

(2) Cash flow statement

At the end of the period under review, cash and cash equivalents stood at ¥7,256mn, down ¥140mn YoY and down ¥778mn compared to the end of the previous period. Cash flows from operating activities were only ¥234mn due to the increase in debt securities relating to sales. Cash flows used in investing activities were ¥322mn, and therefore free cash flow was negative ¥88mn. Cash flows used in financing activities were ¥575mn due to the repayment of short-term borrowing (¥2,763mn), despite income from long-term borrowing and issuance of corporate bonds and shares.

Consolidated statements of cash flows

(¥mn)

	FY12/17	FY12/18	FY12/19	FY12/20	1H FY12/21
Cash flows from operating activities	1,867	-105	2,416	2,358	234
Cash flows from investing activities	-121	-1,402	-2,846	-3,048	-322
Cash flows from financing activities	-634	3,030	1,642	1,619	-575
Cash and cash equivalents at end of term	4,456	5,969	7,124	8,035	7,256

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

Outlook

In 1H FY12/21, the rates of progress for the FY12/21 full-year forecasts were high and it is highly likely that the forecasts will be upwardly revised

For FY12/21, the Company kept the forecast unchanged projecting 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%.

There have been no changes to the forecasts of net sales and segment profit by business. 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

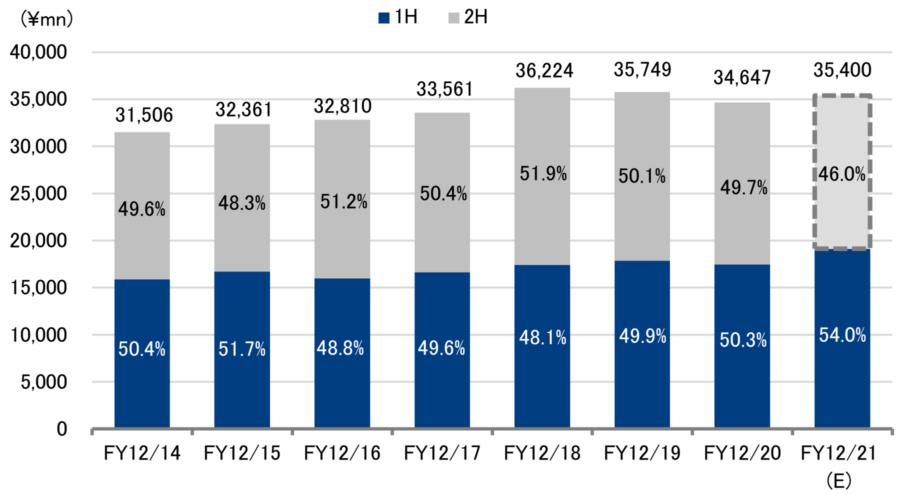
(¥mn)

	FY12/20		FY12/21		YoY	
	Results	Ratio to sales	Forecast	Ratio to sales	Change	% 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%	604	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	33.8%	-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 financial results and results briefing materials

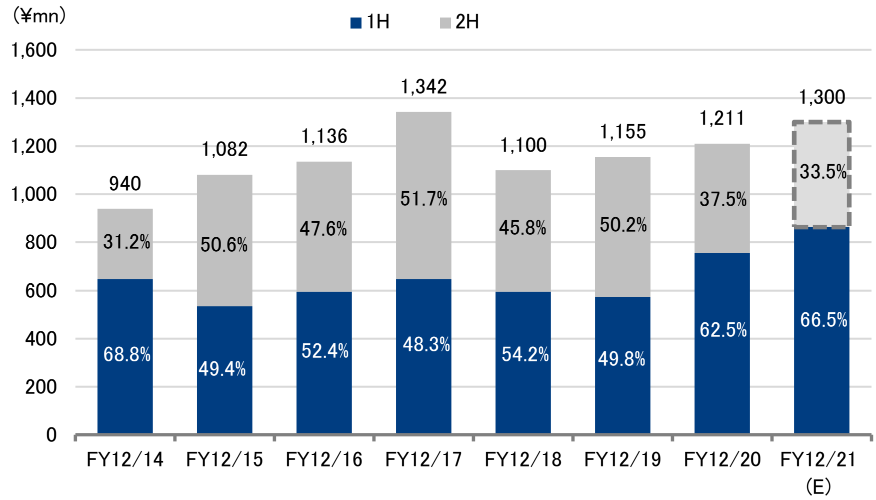
The rates or progress in the 1H FY12/21 for the full-year forecasts were 54.0% for net sales and 66.5% for ordinary income. The average rates of progress for the 1H in the 7 periods from FY12/14 to FY12/20, which is the period in which data on fiscal half years could be obtained, were 49.8% for net sales and 55.1% for ordinary income. Despite the strong results in 1H FY12/21, the Company has left the full-year forecasts unchanged, so the forecasts for the 2H are for net sales to decline 5.4% YoY and ordinary income to decrease 4.2%. Comparing 1H FY12/21 to the 2H, the forecasts are for net sales to decrease from ¥19,117mn in the 1H to ¥16,282mn in the 2H, a decline of 14.8%, and ordinary income from ¥864mn to ¥435mn, a decline of 49.7% or around half the amount of the 1H. One factor is that the 1H included projects delayed from the previous period due to COVID-19, but despite the measures being taken both domestically and overseas for COVID-19, profits are not declining rapidly in the 2H. Therefore at FISCO, we think that it is highly likely that the full-year forecasts will be upwardly revised. In India, the number of people infected per day peaked at over 400,000 people in May 2021, but by October of this year it had declined to less than 20,000 people, which is around 5% of the level of the peak.

Rate of progress for the net sales forecast and the full-year results trend



Source: Prepared by FISCO from the Company's quarterly report

Rate of progress for the ordinary income forecast and the full-year results trend



Source: Prepared by FISCO from the Company's quarterly report

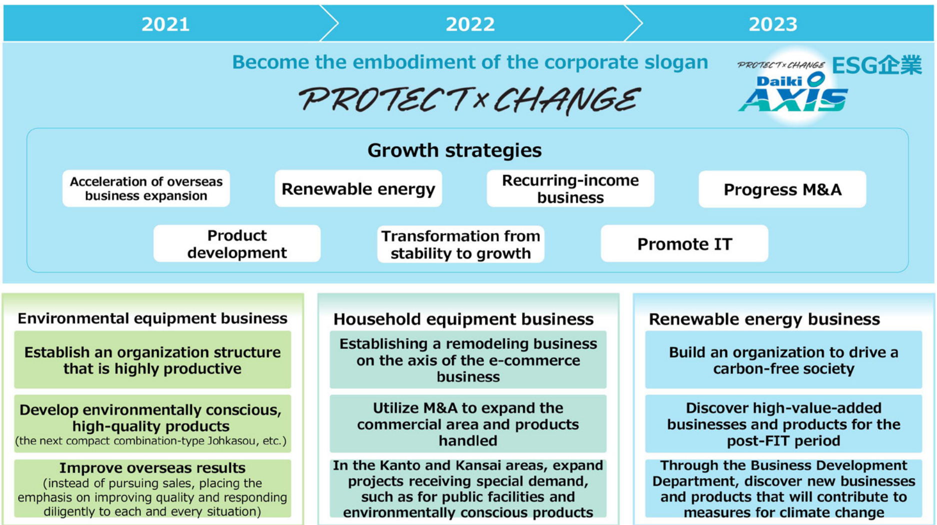
Medium- to long-term growth strategy

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

1. Medium-term business plan

The medium-term business plan Make FOUNDATION Plan was interrupted while it was being implemented due to 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. As there are many undetermined factors that will affect results in the medium to long term, currently it has only disclosed results forecasts for a single fiscal year. For the growth strategies, in addition to the previous "Accelerate overseas business development," "Renewable energy," "Grow the recurring-income businesses," "Progress M&A," "Technological capabilities and product development capabilities," and "Convert from a stable trajectory to a growth trajectory," it has elevated "Promote IT" from a method of improving productivity to a growth strategy.

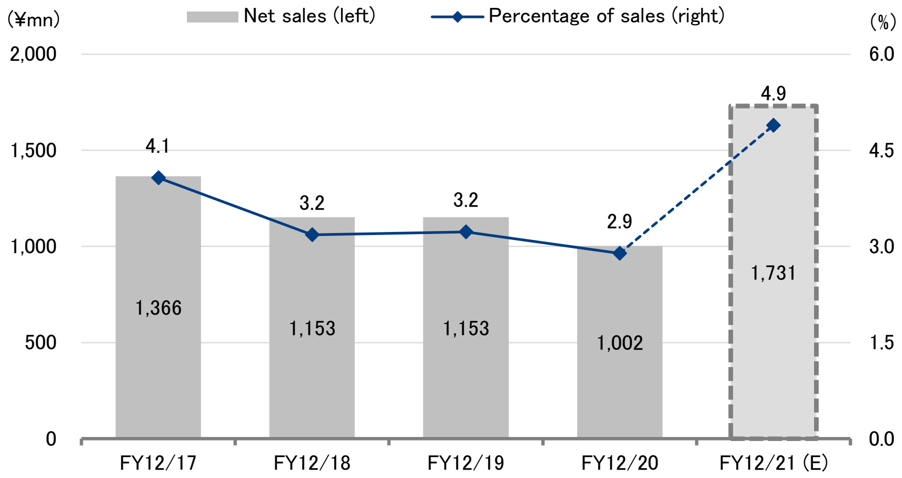
Overview of the medium-term business plan



Source: The Company's results briefing materials

For "Accelerate overseas business development," which is the first of the growth strategies, among the 17 Social Development Goals (SDGs) adopted at the UN Summit, the Company is deeply involved in No. 6 "Ensure availability and sustainable management of water and sanitation for all" in 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 field to which the Company belongs, local companies do not possess the technological level to meet the standards that have been made even 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 is able to develop products that are tailored to water businesses in each of these countries and regions, conduct demonstration experiments and obtain certification proving that its products clear the stricter level of regulations, and conduct local production in production forms that are suited to the development levels of each region and market, including through wholly owned subsidiaries, joint ventures, and outsourced production, in the main markets to realize costs that are acceptable locally.

Trends in net sales and percentage of sales from overseas



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

Will make a major leap forward in India on the launch of its own plant

2. Business trends and overseas development in India

2. Market development, expansion of sales networks and production plan in India, where the Company's corporate features are leveraged, are described in detail below.

(1) Conditions in the Indian market

According to the Ministry of Economy, Trade and Industry, India's total population is about 1.38 billion people, second in the world only to China, while in the second half of the 2020s it is projected to exceed China to become the world's most populous country. Moreover, India's population bonus period is expected to be around 30 years, from 2011 to 2040 (from the Ministry of Economy, Trade and Industry's 2010 Trade White Paper) and it is progressing the formation of social infrastructure.

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 a means of preventing the lack of 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, the Clean India project started in in October 2014, and 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 number of distributors is increasing at a rapid pace

(2) Strengthening the sales network.

The Company has grown this business in stages. In July 2016, it donated Johkasou to the India government and appealed to it on the basis of product quality. Johkasou (which have processing capacity of 10m^3/ day) were installed at three sites to treat wastewater: a public toilet within a park, a public toilet in a village, and a plastics plant as a means of test marketing. In July 2018, it established DAIKI AXIS INDIA Pvt. Ltd. (hereafter, DA-India) as a wholly owned subsidiary. The Johkasou that were imported from its own plant in Indonesia were replaced with locally produced products whose production it had outsourced.

Alongside the establishment of a business structure in India, the Company has strengthened its sales network at a rapid pace. At the end of FY12/18, its distributor network consisted of 5 companies, but this had increased to 11 companies by the end of FY12/19, to 16 companies by the end of FY12/20, and to 20 companies by the end of 1H FY12/21 (hereafter, the period under review). The land area of India is 3.28 million km^2, the 7th largest in the world and around 9 times larger than that of Japan, which is 370,000 km^2 (62nd). At FISCO, we think that the number of companies in the distributor network will increase in the future alongside the strengthening of the production capacity and the development of the market.

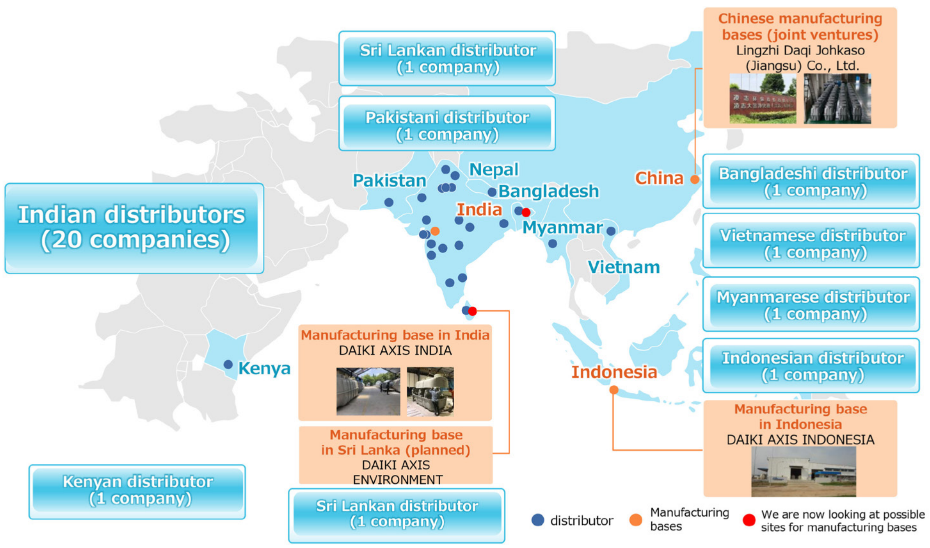
Trend in the no. of distributors by country in Asia and Africa

(Number of companies)

	FY12/18	FY12/19	FY12/20	1H FY12/21
India	5	11	16	20
Sri Lanka	1	1	1	1
Kenya	1	1	1	1
Myanmar	1	1	1	1
Vietnam		1	1	1
Bangladesh		1	1	1
Indonesia			1	1
Nepal			1	1
Pakistan			1	1
Total	8	16	24	28

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

Production bases and network of distributors in each country in Asia and Africa (28 companies)



Source: The Company's results briefing materials

Plans to increase the annual production capacity from the initial 100 units to 960 units

(3) Production capacity

As phase one of business development in India, the Company has outsourced production to Jyoti Plastic Works Pvt. Ltd., a local plastic products manufacturer, in consideration of both the personnel aspect and of reducing the time required. The outsourcing party is an distributor of the Daiki Axis Group, 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. It has doubled the annual production capacity from the initial 100 units to 200 units, but supply is still not keeping up with demand and some are being imported from Indonesia. In September 2021, it increased the monthly production capacity from 20 units to 30 units.

In June 2021, the Group announced that it had established a wholly owned subsidiary in India and that it planned to newly construct its own plant in order to expand production capacity and to reduce costs. The Company's Singapore subsidiary established DAIKI AXIS ENVIRONMENT PVT.LTD. (DAE-India) as a manufacturing subsidiary. The previously established outsourcing party, DAIKI AXIS INDIA, is located in Mumbai in the west of India. The new Group-owned plant will be built in the north of the country near to the capital Delhi, and the aim is for it to start operations in June 2022. Initially it is expected to have an annual production capacity of 350 units, ultimately the plan is to increase this to 600 units a year, the same as the current capacity of the Indonesian plant. Combined with outsourced production, the annual production capacity will increase to 960 units. It seems the production items will be not only capsule-type Johkasou, but also medium-sized cylindrical Johkasou. The Group currently relies on imports from the Indonesian plant for cylindrical Johkasou, but due to the increase in transportation costs, it has in its sights further adding to its production bases in order to build a dispersed production system.

Johkasou of the same type that will be manufactured at the new Indian plant

Capsule-type Johkasou

Cylindrical Johkasou

Source: Reprinted from news releases

History and plan for the India business

Date	Summary
April 2016	Concluded the first sales distributor 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 distributor agreement with four companies in India
July 2018	Newly established DAIKI AXIS INDIA Pvt. Ltd. (DA-India) 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 DA-India
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
April 2021	DA-India acquired certification for the ISO9001:2015 quality management system international standard and for the ISO14001: 2015 environment management systems international standard
June 2021	DA-India increased investment (to respond to the increase in demand in India, invested to increase the monthly production capacity at the outsourcing production plant from 20 units to 30 units by September) Established DAIKI AXIS ENVIRONMENT PVT.LTD. (DAE-India) as a production subsidiary. The production items will be capsule-type Johkasou and medium-sized cylindrical Johkasou, and the plan is to increase the annual capacity from 350 units to 600 units in the future

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

Has acquired eco-certification, quality and environmental management systems international certification, etc.

(4) Improving name recognition

In October 2020, DA-India 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. The Company aims to 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.

In February 2021, 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.

(5) Launching the Water KIOSK business

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. In September 2019, it established the joint venture Daiki Earth Water Pvt. Ltd. (the Company's investment stake: 74%), with its Indian distributor Earth Water Limited. Within India, it is developing a wastewater treatment business and a drinking water sales business through Water KIOSK using the BOT*1 and BOO*2 methods. In February 2021, the Company concluded an agreement for a Water KIOS business using the BOT method with a public corporation that is promoting the smart city concept in Dehradun City, a city on the high plans 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 five-year agreement, the plan is to continue by outsourcing management to the Company's subsidiary through a two-year renewal of the management agreement.

*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.

Established a local subsidiary in Sri Lanka. In Myanmar, the plan has been placed on hold, but this will not cause damage to the Group. In China, the joint venture has become profitable and is distributing dividends.

(6) Trends in the overseas business other than in India

a) Sri Lanka

The Sri Lankan government, within its Vision 2025 development policy it announced in 2017 and Vision 2030 announced by the Expert Committee under the Jurisdiction of the President in 2019, has announced that sanitation facilities relating to wastewater to improve the treatment of wastewater and the living environment are important infrastructure for the country's economic development. Currently, wastewater treatment infrastructure conditions in Sri Lanka are that 2.4% of the country has sewerage facilities and that the implementation of infrastructure is limited to only Colombo City and its surrounding area. 96% of the Johkasou in use are septic tanks that do not function properly, and the deterioration of water quality to levels greatly higher than environmental standards is occurring in many areas of the country.

The Company has continuously conducted Johkasou sales activities in Sri Lanka since 2017 through its local distributor. It has developed the market through sales activities in collaboration with its local distributor and by approaching the government. To improve the water environment in Sri Lanka and to further contribute to the global environment, in May 2021 it established DAIKI AXIS ENVIRONMENT (PVT) LTD., as a local subsidiary. This subsidiary conducts not only sales activities, but also the manufacturing (assembly) of Johkasou.

b) Myanmar

The Group had conducted sales activities in Myanmar from a comparatively early stage and had held the concept of establishing a local subsidiary and a new plant. This plan has been placed on hold due to the coup, but since it occurred before the investment was started, the Daiki Axis Group has not incurred a loss because of it.

c) Kenya
In October 2019, the Company established the joint venture DAIKI-USAFI LIMITED to conduct a wastewater treatment business in Kenya's capital, Nairobi. The Daiki Axis Group's investment stake is 51% and a Kenyan water business company's stake is 49%. It will develop a wastewater treatment business within Kenya using the BOO method.

d) China
In China, the joint venture company established with Lingzhi Environmental Protection Co., Ltd. is expanding production of the XE-type of small Johkasou. The spread of Johkasou has been slowed by the increased strictness of China's regulations, but in 2020, the number of units sold annually reached nearly 1,000. The joint venture reached the stage of distributing dividends through a transition to being profitable.

Implementation of new M&A

3. Other growth strategies

(1) "Renewable energy" and "Progress M&A"
With an aim to become carbon neutral by 2050, the Japanese government announced a new target for reducing carbon dioxide (CO_2) emissions by 2030 in April 2021, raising the target from the previous 26% reduction compared to FY2013 to a 46% reduction. As the draft paper for the new power supply composition in FY2030, it intends for the ratio of renewable energy to the total amount of power generated to be from 36% to 38%, which is an increase of more than 10pp compared to the previous target.

In the business in which the Company installs solar panels onto the roofs of DCM Group stores and sells the generated power, all 130 stores have been connected to the grid and full operations have started. Going forward, stable earnings are expected over the long term.

Also, the Company newly carried out M&A with the aims of sustainable business development and growth in the future. In September 2021, it acquired all of the shares of Sanei Ecohome, which conducts a solar power systems-related business. The main business of the new subsidiary, whose head office is in Fujisawa City, Kanagawa Prefecture, is the design, construction, sales, maintenance and management of power generation systems that use renewable energy, primarily solar power equipment. Renewable energy is domestically produced energy that does not rely on imports, and while it does not emit CO_2 when it is generated, a problem is that the amount of energy generated depends upon factors such as the season, time, and weather. But it is anticipated that the stability of its supply will be significantly improved by accurately ascertaining the environmental conditions and the energy (abundance) specific to regions and using each respective energy in an integrated manner efficiently and without waste (the energy mix). The Daiki Axis Group conducts a renewable energy business using solar and compact wind power facilities. Collaborating with the new subsidiary through optimized planning will make possible the integrated, one-stop implementation of the series of tasks, from installation through to management, as a non-FIT business. This will enable it to realize for the market comprehensive proposals with a sense of speed. At FISCO, we think that as well as in Japan, it will be able to help supplement the power supply in various countries that have many regions that are without a power supply.

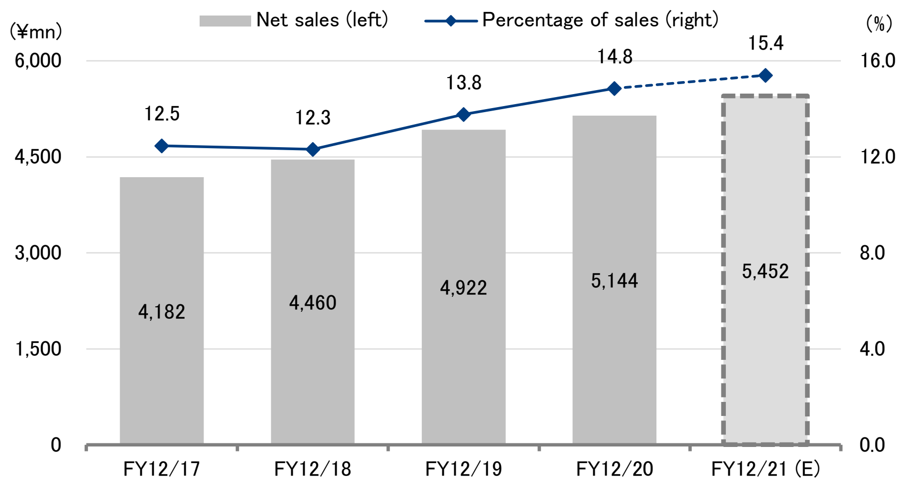
Differentiation through an abundant service menu and wide-area development

(2) Recurring-income businesses

One growth strategy is to leverage the strengths of the Daiki Axis Group to strengthen the recurring-income businesses that are stable sources of earnings. For this, the Company handles Johkasou installations and maintenance and store management tasks (cleaning, fire prevention, electricity inspections and other inspections) at the DCM Group's stores. It is expanding bulk orders of wastewater treatment equipment and Johkasou maintenance at the nationwide chains of major convenience stores, major restaurants and their central kitchens. While existing service providers can provide coverage only in local areas, the Company seeks differentiation by not only lowering costs, but also by delivering uniform services on a nationwide scale. For businesses that manage many stores (its customers), management is complicated, such as Johkasou legal inspections and inspection records, and inspection records of wastewater treatment equipment. The abundant service menu accumulated through providing services to DCM Group stores not only increases convenience for the customer, but for the Daiki Axis Group as well, it leads to an increase in sales per store. In the period under review, it succeeded with horizontal business development to a major convenience store chain and acquired 800 new contracts, so the total number of contracts increased to 4,500.

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.

Trends in net sales and percentage of sales for maintenance



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

Topic

Selected for the Prime Market

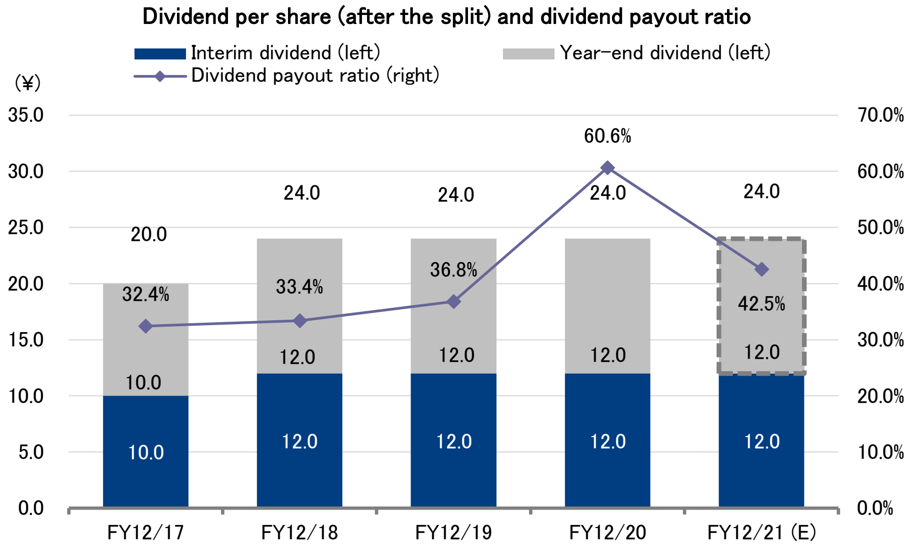
In April 2022, the TSE will reorganize its market categories in order to clarify the concepts of these market categories. The current markets, of the 1st Section, the 2nd Section, Mothers, and JASDAQ (standard and growth) will be reorganized into three markets; the Prime Market, the Standard Market, and the Growth Market. The Prime Market's concept is that it will be a market for companies that focus on having constructive dialogues with global investors. The Standard Market will be a market for companies that have sufficient levels of liquidity and governance to be a target of investment on an open market and also for companies that have growth potential in high growth markets. In the period from September to December 2021, listed companies will submit the documents to apply to be selected for one of the new market categories, based on the respective market's concept and listing standards. On November 12, 2021, the Company announced that it had been selected for the Prime Market. The TSE plans to publish on which of the new market categories each company will be listed on January 11, 2022, and then to transition to the new categories on April 4 of the same year. In the new market categories. the standards to maintain a listing on the Prime Market are "Have at least 800 shareholders," "Have at least 20,000 units of tradeable shares," "Have a tradeable share market capitalization of at least ¥10bn," "Have an average trading value of at least ¥20mn," "Have a tradeable share ratio of at least 35%," and "Net assets in the financial status: positive."

Shareholder return policy

In FY12/21, will once again pay an annual dividend of ¥24

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, year-end dividend: ¥12) for a dividend payout ratio of 42.5%.

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.



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

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

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