COMPANY RESEARCH AND ANALYSIS REPORT

Daiki Axis Co., Ltd.

4245

Tokyo Stock Exchange Prime Market

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Index

Summary

Continues to perform strongly due to the environmental equipment business and household equipment business

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. In the renewable energy business, it is not only conducting a business of sales of power generated by solar power and wind power equipment, but is also focusing on initiatives such as the development and manufacturing of compact wind power generation equipment, and the expansion of its carbon-neutral biodiesel fuel business, in which it refines vegetable-based waste cooking oil and sells it as an alternative fuel. In the environmental equipment business, the development and production of energy-saving Johkasou contributes to reducing users' power consumption. In the household equipment business, the Company is focusing on sales of specialty commercial products that use domestically produced thinned lumber and other materials.

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) through its business, among other things. The most important SDG is the sixth one, which states "Clean Water and Sanitation: Ensure availability and sustainable management of water and sanitation for all."

1. FY12/21 results and FY12/22 results forecasts

The FY12/21 results were affected by factors including the novel coronavirus pandemic (hereafter, COVID-19), the wood shock, delays in deliveries of some products mainly due to the semiconductor shortage, and sharply rising transportation costs. However, sales and profits still increased, driven by the performances of the environmental equipment business and household equipment business. Consolidated net sales increased 9.2% year on year (YoY) to ¥37,824mn and operating income rose 7.1% to ¥1,119mn. In the environmental equipment business, overseas net sales increased 48.5% and contributed 3.9% of sales.

For the FY12/22 consolidated results, the Company is forecasting that net sales will increase 5.8% YoY to ¥40,000mn and operating income will rise 2.7% to ¥1,150mn. The forecasts take into consideration the increase in personnel costs and the costs of the subsidiary acquired in the previous period, and the rise in SG&A expenses above the sales increase rate. Operations at the Company's own new plant in India are scheduled to start in September 2022, and it is expected to fully contribute from FY12/23 onwards.

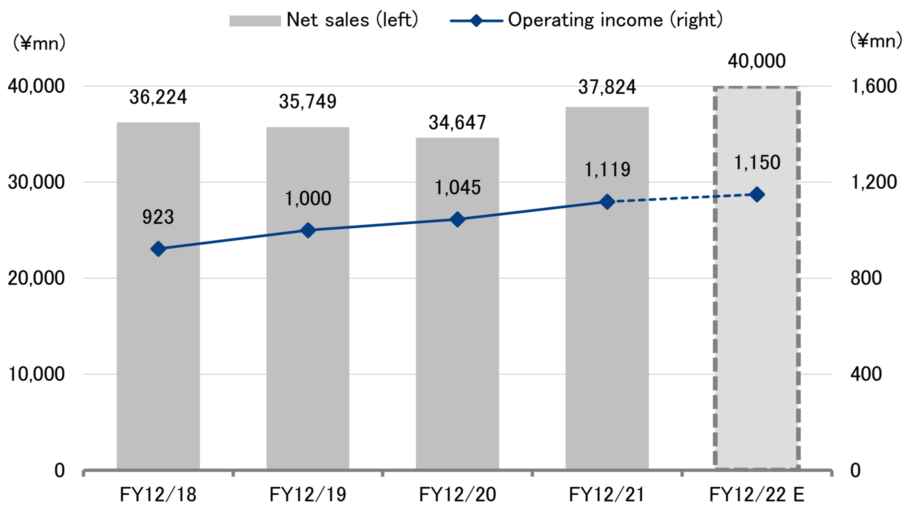
2. Medium-term business plan

The numerical targets for FY12/25, the final fiscal year of the medium-term business plan, are consolidated net sales of ¥45,000mn and operating income of ¥2,000mn. Compared to FY12/21, net sales will increase 19.0% and operating income will rise 78.6%. Overseas sales in the environmental equipment business, the househould equipment business that has changed course from stability to growth, which will contribute significantly to the higher sales. In the renewable energy business, the Company is targeting compact wind power generation at 70 sites, and it is jointly developing 50kW facilities with high investment efficiency than the current facilities which have less than 20kW. For solar power generation systems, it is investigating various options, including installations of solar car ports and EV charging stands. In 2021, the Company made a subsidiary of Sanei Ecohome Inc., whose main business is the design, construction, sales, and maintenance and management of power generation systems that use renewable energy, and this acquisition has allowed it to implement a one-stop service for power generation systems.

Key Points

- Is aiming to approach global investors, protect the global environment, and create a sustainable society and future
- New plant in India is scheduled to start operations in September and will support a major leap forward
- FY12/25 numerical targets are net sales of ¥45bn and operating income of ¥2bn

Result trends



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

Company profile

Is aiming to improve people's QOL and contribute to protecting the environment on the axis of its businesses related to "water"

1. Company profile

Through conducting both "business activities" and "corporate activities," the Company is aiming to contribute to creating a sustainable environment and society, while also aiming to improve people's QOL (Quality of Life). It has been helping create comfortable lives and conducting environmental preservation for half a century on the theme of "water and living," while in recent years, it has been implementing an M&A strategy in order to expand the renewable energy business. 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.

Breaking down the FY12/21 consolidated net sales of ¥37,824mn, the environmental equipment business, which includes the Johkasou and wastewater treatment systems businesses, provided 53.2%; the household equipment business, such as wholesale to construction customers, provided 42.0%; the renewable energy business, which is mainly sales of power from solar power generation, provided 3.0%; and other businesses provided 1.8%.

Through actively conducting M&A, the Company has succeeded in launching a renewable energy business, which is seen as a growth field. In the mainstay environmental equipment business, it is accelerating overseas business development that will contribute to achieving the sixth SDG of "Clean Water and Sanitation: Ensure the availability and sustainable management of water and sanitation for all." In the overseas markets, it is establishing wholly owned subsidiaries and joint ventures and conducting outsourced production that is tailored to the local characteristics and business-development levels of each location and is establishing production bases in China, Indonesia and India. In 2022, operations are scheduled to start at an assembly plant in Sri Lanka and at the Company's own new plant in India. The number of overseas sales distirubuters has rapidly increased from 8 companies three fiscal periods previously to 31 companies, including 23 companies in India.

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 exercise period is three years, but depending on the share price, the amount of funds raised 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 Company was newly listed on the Chemicals Sector of the Tokyo Stock Exchange (TSE) Second Section in December 2013, and then its listing was upgraded to the TSE First Section in December of the following year. In the new market categories that the TSE transferred to in April 2022, it has been selected for the Prime Market. Transferring to the Prime Market, which is intended mainly for companies that are holding constructive dialogues with global investors, is likely to lead to an improvement in the Company's enterprise value. Its approach is also to actively develop its businesses overseas in order to protect the global environment and to create a sustainable society and future, mainly through its businesses related to "water." Therefore, it is considered that its selection for this market category is appropriate.

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 improvement 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 improvement 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 improvement center retail materials to group companies under DCM Holdings and provides comprehensive store management services, including construction and cleaning of home improvement centers. 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 FY12/21, the Daiki Axis Group is comprised of the Company, 17 consolidated subsidiaries (9 in Japan and 8 overseas), 2 non-consolidated subsidiaries (1 in Japan and 1 overseas) 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 May of FY12/21, the Company established an environmental equipment business subsidiary in Sri Lanka and included it in 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 Alumi kobo Hagio Co., Ltd. (Niihama City, Ehime Prefecture), which conducts installations and sales of residential window sashes 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
Note: other than above, CAP Co., Ltd., is a non-consolidated subsidiary
Source: Prepared by FISCO from Company materials

Is progressing the renewable energy business by leveraging the global trend for decarbonization management

3. Leveraging the global trend for decarbonization management

In April 2021, the Japanese government announced a new target for realizing carbon neutrality of reducing emissions of greenhouse gases by 46% compared to FY2013 by 2030 toward actual net zero emissions by 2050. The previous target, which was based on the 2015 Paris Agreement, was the interim target of a 26% reduction, so the reduction rate has been significantly increased. Moreover, while the official target is a reduction of 46%, the government has supplemented this with the aim of a reduction of as high as 50%.

Looking globally, the G7 participant countries announced a target of actual zero emissions by 2050, while the world's largest emitters, China and India, are aiming to achieve the net zero target by 2060 and 2070, respectively. In the investment world, in December 2020, the Net Zero Asset Managers initiative (NZAMI) was established and it will support investment toward net zero greenhouse gas emissions by 2050. There are 236 asset management companies participating in NZAMI with total assets of US$57.5 trillion (around ¥6,600 trillion), which accounts for nearly 60% of the world's managed assets. With regards to the disclosure of corporate information, companies listed on the TSE Prime Market are effectively obligated to disclose information on risks due to climate change. The Task Force on Climate-related Financial Disclosures (TCFD) recommends disclosure on the items of "governance," "risk management," "strategy," and "indicators and targets." For the "indicators and targets" item, as of March 2022, 160 Japanese companies have obtained certification for Science Based Targets (SBTi). For the emissions calculations when an individual company aims to realize carbon neutrality, in addition to the fuel consumption of that company's facilities (scope 1) and the use of electricity and heat purchased by that company's facilities (scope 2), the scope has been expanded to scope 3 of emissions at the time of manufacturing products by the company's upstream suppliers and emissions at the time of the use of its products by its downstream customers.

The Company has positioned and is progressing the renewable energy business as a growth business. It consists of a business for sales of power generated by solar power and wind power equipment, the development and manufacture of compact wind power generation equipment, and a carbon neutral biodiesel fuel business. Moreover, in the household equipment business, it is focusing on sales of eco-friendly specialty products. For all of its businesses, the Company's policy is to be the embodiment of its corporate slogan, of "PROTECT x CHANGE (Protect the environment. Change the future.)" and to implement ESG management.

Business overview

The environmental equipment business is expected to make a major leap forward in India

On the axis of its businesses related to "water," the Company is widening its network to the world based on its activities within Japan as a corporate group that contributes to building comfortable living environments that are kind to nature and to people.

1. Environmental equipment business

Looking at the composition of net sales in the environmental equipment business in FY12/21, the clean water business that converts underground water into drinking water provided 4.4%, recycled wastewater systems 0.1%, sewerage-related domestic compact-type combination treatment Johkasou 7.2%, wastewater treatment systems 63.2%, and maintenance, etc. 25.0%. This business is able to respond to needs for each of clean water, recycled water, and sewerage. Wastewater treatment systems are divided into treatment systems and disposers for household wastewater, such as from condominiums and rural villages, and into organic treatment and inorganic progressing for industrial wastewater treatment. Organic treatment, such as for food processing plants and hospitals, involves biological treatment, while inorganic treatment, including for electrical equipment and plating plants, involves chemical treatment.

One of this business's features is integrated operations covering development, design, production, installation, sales, and maintenance of wastewater treatment 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.

(1) Overseas business

The overseas business is forecast to grow dramatically in the future, mainly in India. This business is expected to increase net sales in the environmental equipment business to supplement the reduction in demand in Japan due to its population decline in the medium to long term.

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). Overseas water majors cover all 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 above-mentioned three main businesses enables the Company to differentiate itself 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.

a) Trends in India

The business in India is expected to make a major leap forward in the future. In India, the Clean India project started 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. 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 by the India government as optimum 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.

The Company has grown this business in stages. In July 2016, it donated Johkasou to the Indian government. Johkasou (which have a treatment 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. In July 2018, it established DAIKI AXIS INDIA Pvt. Ltd. (hereafter, DA-India) as a wholly owned subsidiary, and the Johkasou that had been imported from its own plant in Indonesia were replaced with locally produced products whose production it had outsourced. In consideration of reducing both personnel and time, production is being outsourced to a local plastic products manufacturing company, which is also a distributer of the Company. The item being produced is the capsule-type Johkasou that can service 20–50 households. The production capacity was 100 units in the first year, but in September 2021, it was increased to 30 units a month. However, supply is still not keeping up with demand, so some units are being imported from Indonesia.

The Company's own new plant in India, which is being built in the north of the country near to the capital Delhi, is scheduled to start operations in September 2022. Initially it is expected to have an annual production capacity of 350 units, but ultimately the plan is to increase this to 600 units a year. It will produce capsule-type Johkasou and medium-sized cylindrical Johkasou.

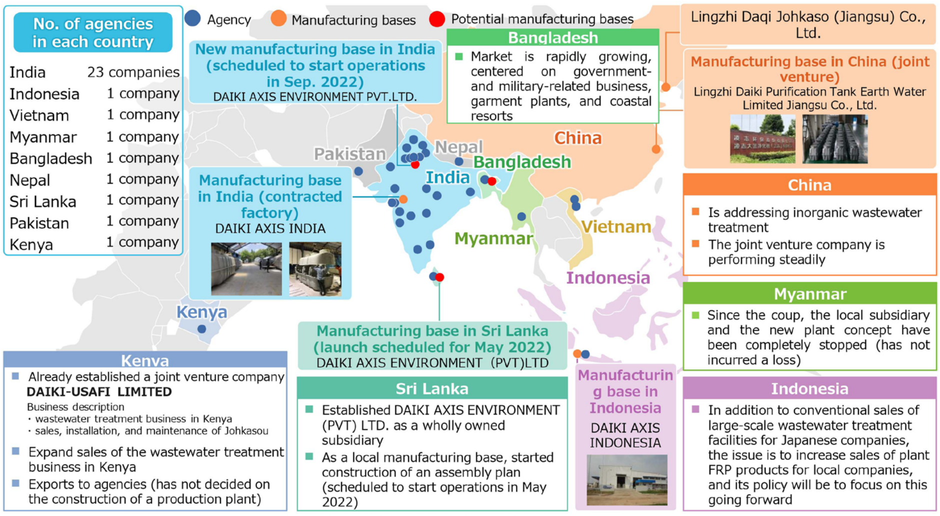
In October 2020, DA-India acquired Green Product Certification, which is an eco-certification, for its India-manufactured Johkasou. This was the first eco-certification in the wastewater treatment sector. In November of the same year, the Company's India-manufactured Johkasou obtained recommendation approval from India's Ministry of Water Environment. This was the first recommendation approval by the Indian central government for on-site wastewater treatment. It seems this will enable the Company to reduce the normally lengthy administrative procedure, which includes having to acquire evaluations of Johkasou in each region.

Additionally, 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 on-site wastewater treatment method has not been established, so it will conduct a demonstration experiment to add nitrogen treatment to products from Indian plants and for two advanced treatment 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. 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.

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 distributer network consisted of 5 companies, but this had increased to 11 companies by the end of FY12/19, 16 companies by the end of FY12/20, and 23 companies by the end of FY12/21 (hereafter, the period under review). India's population is about 1.38 billion people, second in the world only to China, and is projected to exceed China in 2027 to become the world's most populous country. The land area of India is 3.28 million km^2, the 7th largest in the world and around nine times larger than that of Japan, which is $370,000km^2$ (62nd). At FISCO, we think that the number of companies in the distributer network will increase in the future alongside the strengthening of the production capacity and the development of the market.

Network of production bases and distributers (31 companies) in various countries in Asia and Africa



Source: The Company's results briefing materials

Will start local production in 2022 alongside the Sri Lanka government's promotion of improvements to the wastewater environment

b) Main trends in other countries

The assembly plant in Sri Lanka is scheduled to start operations in June 2022. The Sri Lankan government, within its Vision 2025 development policy released in 2017 and the Vision 2030 released by the Expert Committee under the Jurisdiction of the President in 2019, has announced that sanitation facilities relating to improving 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. Of the Johkasou septic tanks in use, 96% do not function properly, and deterioration of water quality to levels far below environmental standards is occurring in many areas of the country. Since 2017, the Company has continuously conducted Johkasou sales activities in Sri Lanka through its local distributer, and then in May 2021, it established DAIKI AXIS ENVIRONMENT (PVT) LTD., which will not only conduct sales activities, but also engage in the manufacture (assembly) of Johkasou.

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.

* 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 China, the joint venture company established with a local company produces the XE-type compact Johkasou. But the situation is that the spread of Johkasou has been slowed by the increased strictness of China's regulations. Moreover, recently it has been impacted by the aggressive pricing strategies of local companies selling similar products. But the Company still intends to steadily develop this business.

(2) 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 into 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. 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. At the end of FY12/21, there were 100 ESCO installations. Broken down by industry, 30 were for hospitals, 17 for welfare facilities, 15 for food processing plants, 12 for large-scale commercial facilities, 11 for sports gyms, 8 for educational facilities, 5 for hotels, 1 for a hot spring bathing facility, and 1 for other.

(3) Maintenance inspection business

The Company's growth strategy is to strengthen the recurring-income business that is a stable source of earnings. It handles store Johkasou installations and maintenance and store management tasks (cleaning, fire prevention, electricity, and other inspections) at the DCM Group's stores. It has been expanding bulk orders of wastewater treatment equipment and Johkasou maintenance at major convenience store chains and major restaurant chain stores and their central kitchens. In contrast to existing service providers that can provide only individual services specific to local areas, the Company seeks to differentiate itself by not only lowering costs, but also by delivering uniform services on a nationwide scale. For businesses (its customers) that operate many stores, management of legal inspections and inspection records of Johkasou, inspection records of wastewater treatment equipment, etc. is complicated. The abundant service menu accumulated through providing services to DCM Group stores not only increases convenience for the customer, but also leads to an increase in sales per store for the Daiki Axis Group as well.

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. 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.

Aiming to convert the household equipment business from the previous “stable” trajectory to a “growth” trajectory

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 (EC). It also intends to improve the profit margin by adopting a centralized purchasing system. Breaking down net sales in the household equipment business for FY12/21, construction customers provided 74.2%, home improvement center retail materials 12.3%, and housing facilities projects 13.5%. The newly established EC business remained at 0.1% because it is still in its startup period. The commercial areas of conventional wholesale are limited to the Kinki, Chugoku, and Shikoku regions, but EC covers the entire country.

(1) deki × tano EC website

In January 2022, the Company launched the deki × tano EC website. This website offers services that enable customers to request professionals to carry out remodeling of housing equipment, such as a home’s walls, shelves, and toilets, or for DIY products for remodeling by oneself. The website is divided into a page for DIY products and a page for construction work estimate products. The DIY products can be installed by oneself, while the construction work estimate products require requests to the Company for installation work. If conducting remodeling by oneself, the customer can add the Company as a friend on the smartphone app LINE, send photos of required DIY products and installation sites before ordering by carrying out additional operations on LINE, and receive answers as to whether the selected products can be installed or not. If the customer is unable to install the DIY products by themselves, the Company’s support includes after-sales follow-up. Customers can also request assistance from professionals in the middle of an installation.

(2) Specialty products (eco-friendly product)

The Company is focusing on eco-friendly specialty products as products that differentiate it from its competitors. The wooden-structure KES method (a metal-joints method) that enables local general contractors and construction stores to carry out construction work, and the Company provides medium-sized and large wooden structures made from locally produced lumber utilizing this method. These structures offer excellent earthquake resistance and have been adopted for wooden public facilities and kindergarten buildings nationwide. Wooden tanks are tanks manufactured using locally produced lumber. They offer high levels of thermal insulation and heat retention performance, are excellent in terms of design features and maintainability, and have a lifespan of more than 60 years. The environmental pile method is a ground improvement method that incorporates thinning lumber for wooden piles used as a ground reinforcement material. Its environmental load is low compared to ground improvement methods that use cement and iron and it can also contribute to the effective use of thinning lumber. The dehumidification-type radiator heating and cooling system does not produce wind mechanically, and thus realizes heating and cooling that is kinder to the body. By circulating cold water and hot water in a radiator, coolness and warmth can be stably created with natural temperature changes due to radiation and natural convection. It has already been installed into a gymnasium. After it is disassembled, it can be recycled as paper or wood chips.

Specialty products [eco-friendly products]

Medium-sized and large wooden structures – metal-joints method

Wooden tanks

Ground reinforcement method using wooden piles

Dehumidification-type radiator heating and cooling system

Source: The Company's results briefing materials

Has positioned the renewable energy business as a growth business and is actively implementing an M&A strategy

3. Renewable energy business

Breaking down net sales in the renewable energy business for FY12/21, the power sales business through solar power facilities provided 84.0%, biodiesel fuel business 12.9%, compact wind power generation business 1.2%, and hydrothermal treatment business 1.8%.

The renewable energy business has been integrated with the business of Daiki Axis Sustainable Power Co., Ltd. Since 2019, it has been consolidated into Daiki Axis Sustainable Power, which develops and manages wind power generation and solar power generation facilities, and in July 2021, the Company's biodiesel fuel business was transferred to it.

(1) Solar power business

The solar power generation facilities are operated through leasing rooftops of DCM Group stores, and all 130 facilities have been connected to the power grid as planned. Annual net sales are approximately ¥800mn and operating income is around half that, which will become a stable source of earnings in the long term. The depreciation period of solar power generation facilities is 20 years (straight-line method), which is the same as the feed-in-tariff (FIT) fixed-price purchase period. Also, the Company has already prepared a proportionally distributed budget for the costs of removing the facilities after 20 years.

In September 2021, the Company acquired all of the shares of Sanei Ecohome. The main business of Sanei Ecohome, whose head office is in Fujisawa City, Kanagawa Prefecture, is the design, construction, sales, and maintenance and management of power generation systems that use renewable energy, primarily solar power equipment. Going forward, it will generate synergies with the Daiki Axis Group, and they are considering initiatives including installing low-cost solar carports in car parks and developing a combination EV charging stand and solar power generation system.

(2) Biodiesel fuel business

The biodiesel fuel business was launched in 2002. It involves collecting plant-derived edible oil used for frying foods and other purposes generated by general households, food processing plants, and other locations, and purifying it to create biodiesel fuel for reuse as alternative fuel, such as light oil. Using biomass energy with plant-derived edible oil waste as the raw material is considered to be "carbon neutral." The Company is aiming to realize local-production, local-consumption, circulating-type energy, and while looking for local governments as partners, it is progressing the "More Oil Project" that promotes the recycling of edible oil waste. So far, it has mainly conducted activities in Ehime Prefecture, but it is aiming for further developments and is considering entering the Kanto area, which has a large population.

(3) Compact wind power generation business

The compact wind power generation business was launched in FY12/19. Compact wind power generation of less than 20kW applied for up to FY2017 has the high FIT purchase price of ¥55/kW, and Daiki Axis Sustainable Power holds approximately 8,000 IDs at this high purchase price. However, as the acquired IDs have an expiration date, it will be necessary to launch a business by July 2022. By the end of FY12/21, Daiki Axis Sustainable Power had connected 12 compact wind power generation sites to the power grid and started FIT sales. During FY12/22, it plans to start operations at 10 new sites and is aiming to have 70 sites operating nationwide by FY12/25. It anticipates that the power-sales revenue per site will be ¥2mn to ¥2.5mn and that the operating income margin will be around 25% to 30%. However, in FY2018, the purchase price in this classification was revised to ¥20/kWh, which is the same as the 20kWh and above classification, and therefore it intends to respond to the new FIT system with 50kW facilities. Once it obtains approval, it will install 50kW facilities at the less-than-20kW sites. This policy is to take advantage of the fact that although the installation costs are the same, the sales from the 50kW facilities are 2.5 times higher.

For the development of compact wind power generation equipment, in the Ministry of the Environment's 2020 Development and Demonstration Project for CO_2 Emissions Reduction Measures and Strengthened Induction-Type Technologies, Zephyr Corporation, RICOH JAPAN Corp. (a subsidiary of RICOH <7752>) and Daiki Axis Sustainable Power are participating as the joint implementers of a Technology Development and Demonstration Project for Low-Pressure Wind Power Generation Equipment. Based on the movement to create local disaster prevention methods and independent grids that utilize self-managed lines and existing distribution grids, and the emergence of a movement to consume self-produced reusable energy within business establishments, they are aiming to newly develop wind power generation facilities with a 50kW rated output, which is highly socially acceptable. Zephyr is responsible for the overall design of the wind turbine, design of the blades, conversion of automotive parts, field testing, and construction of the wind turbine control algorithm, while RICOH Japan will develop a maintenance support tool that utilizes AI. Daiki Axis Sustainable Power is responsible for the supplementary design and production of the blades. The goal is to develop the wind power generation facilities by April 2023.

4. Other businesses

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

Results trends

In FY12/21, sales and profits increased despite the negative impacts of COVID-19 and other factors

1. Overview of FY12/21 results

In the FY12/21 consolidated results, net sales increased 9.2% YoY to ¥37,824mn, operating income rose 7.1% to ¥1,119mn, ordinary income grew 7.4% to ¥1,300mn, and profit attributable to owners of parent increased 28.0% to ¥610mn. Results were affected by factors including COVID-19, the wood shock, delays in deliveries of some products mainly due to the semiconductor shortage, and sharply rising transportation costs. However, sales and profits still increased, driven by the performances of the environmental equipment business and household equipment business. Compared to the forecasts, ordinary income was in line with the forecast, but profit attributable to owners of parent was 12.9% below forecast due to the occurrence of an extraordinary loss and tax burden that were higher than expected.

FY12/21 consolidated results

(¥mn)

	FY12/20		FY12/21			YoY		vs. forecast
	Results	Ratio to sales	Forecast	Results	Ratio to sales	Change	% change	
Net sales	34,647	-	35,400	37,824	-	3,176	9.2%	6.8%
Gross profit	7,336	21.2%	-	7,860	20.8%	524	7.1%	-
SG&A expenses	6,291	18.2%	-	6,741	17.8%	449	7.2%	-
Operating income	1,045	3.0%	1,150	1,119	3.0%	74	7.1%	-2.7%
Ordinary income	1,211	3.5%	1,300	1,300	3.4%	89	7.4%	0.0%
Profit attributable to owners of parent	477	1.4%	700	610	1.6%	133	28.0%	-12.9%

Note: Forecasts are the values announced in the 3Q financial results announcement
Source: Prepared by FISCO from the Company's financial results

FY12/21 net sales and operating income by business segment

(¥mn)

	FY12/20		FY12/21		YoY	
	Results	Ratio to sales	Results	Ratio to sales	Change	% change
Net sales	34,647	-	37,824	-	3,176	9.2%
Environmental equipment business	17,396	50.2%	20,130	53.2%	2,734	15.7%
(of which, overseas net sales)	1,002	2.9%	1,489	3.9%	487	48.5%
Household equipment business	14,742	42.5%	15,875	42.0%	1,132	7.7%
Renewable energy business	1,196	3.5%	1,141	3.0%	-55	-4.6%
Other businesses	1,312	3.8%	677	1.8%	-635	-48.4%
Operating income	1,045	3.0%	1,119	3.0%	74	7.1%
Environmental equipment business	1,234	7.1%	1,688	8.4%	453	36.7%
Household equipment business	313	2.1%	370	2.3%	56	18.2%
Renewable energy business	311	26.1%	179	15.7%	-132	-42.4%
Other businesses	171	13.1%	120	17.8%	-51	-29.8%
Adjustment	-984	-	-1,238	-	-254	-

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 15.7% to ¥20,130mn and contributed 53.2% of total net sales. Segment income increased 36.7% to ¥1,688mn and the ratio of profit to sales rose 1.3 percentage points (pp) to 8.4%. Within segment net sales, sales of Johkasou and wastewater treatment systems were ¥19,240mn (95.6% of segment net sales), and sales of the business to convert underground water into drinking water were ¥889mn (4.4%). Within sales of Johkasou and wastewater treatment systems, net sales in Japan increased 13.5% YoY to ¥17,751mn. Large-scale projects in Japan relating to industrial wastewater treatment facilities, including a food processing plant, contributed to the increase in sales due to the progress made in standards for the percentage-of-completion method. The large-scale projects in Japan contributed to profits. Overseas net sales grew significantly, increasing 48.5%, with large-scale projects in China and Iraq and an increase in sales in India contributing, and provided 7.4% of segment net sales. Maintenance, including overseas, performed steadily, with sales increasing 5.5% to ¥5,040mn and providing 25.0% of segment net sales. In the clean water business, there were three ESCO installation projects and three 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 7.7% YoY to ¥15,875mn and segment profit rose 18.2% to ¥370mn. Demand in Japan for housing remodeling continues to be firm and is recovering from the decline due to COVID-19. In terms of segment profit margins, construction customers provided 74.2%, home improvement center retail products 12.3%, EC 0.1%, and housing facilities projects 13.5%. Construction customers' sales grew 15.3%. COVID-19-related subsidies had an effect, while demand increased for contactless toilets (automated opening and closing of the toilet lid, automated cleaning function, etc.) Demand was also generated to replace lighting, air conditioning, and other equipment at sales stores. Moreover, building construction work using the wood-construction method increased, and sales of eco-friendly specialty products were strong. The wood shock originating from the United States did not have a significant impact due to the use of domestically produced thinned lumber in construction work. Sales of home improvement center retail products were basically unchanged YoY. In housing facilities projects, sales decreased 17.3% because although there was an order for a DCM store construction project, it was not completed during the period.

(3) Renewable energy business

In the mainstay solar power business, net sales increased 20.8% YoY to ¥958mn, while segment profit for the renewable energy business decreased 42.4% to ¥179mn. Breaking down the composition of net sales, solar power business provided 84.0%, biodiesel fuel business 12.9%, compact wind power generation business 1.2%, and hydrothermal treatment business 1.8%. Solar panels have been installed at 130 of the DCM Group's stores (up 1 store YoY), and all the sites have been connected to the power grid. Profits fell in the solar power business following the sale of DAD Co., Ltd.'s business, but the power sales business of Sanei Ecohome, which has newly been made a subsidiary, contributed for a part of the period. In biodiesel fuel business, progress was made in acquiring customers through sales efforts, so sales increased 33.4% YoY. In compact wind power generation business, 12 sites have been connected to the power grid and a power sales business via FIT has been launched.

(4) Other businesses

In other businesses, net sales decreased 48.4% YoY to ¥677mn and segment profit declined 29.8% to ¥120mn. Sales and profits both decreased due to the sale of the civil works business.

2. Financial position and cash flow

(1) Financial position

At the end of FY12/21, total assets had increased ¥4,473mn compared to the end of the previous period to ¥32,252mn. Current assets increased ¥2,533mn to ¥19,981mn. Cash and deposits decreased ¥1,598mn, mainly due to the acquisition of a subsidiary. Trade receivables rose ¥2,266mn due to the recording of sales from large-scale projects in Japan and overseas. Inventories increased ¥1,688mn due to the acquisition of a subsidiary. Non-current assets increased ¥1,940mn to ¥12,270mn. Property, plant and equipment, which includes the solar power generation equipment of the acquired subsidiary, increased ¥1,373mn, and intangible assets rose ¥465mn. Goodwill increased ¥508mn to ¥1,024mn.

In liabilities, current liabilities increased ¥961mn to ¥16,839mn, while non-current liabilities rose ¥2,306mn to ¥6,572mn. In non-current liabilities, corporate bonds, loans payable, etc. increased ¥2,094mn due to a syndicated loan (an increase of ¥1,000mn) and the issue of green bonds (an increase of ¥1,000mn). However, in current liabilities, loans payable, corporate bonds, etc. decreased ¥2,012mn.

As a result, the current ratio rose 8.8pp YoY to 118.7%, while the equity ratio decreased 0.1pp to 27.4%.

Consolidated balance sheet and financial ratios

(¥mn)

	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	Change
Current assets	15,033	18,763	18,906	17,448	19,981	2,533
(Cash and deposits)	4,517	6,013	7,165	7,896	6,298	-1,598
(Trade receivables)	7,490	9,230	8,562	7,116	9,382	2,266
(Inventories)	2,487	2,998	2,573	2,063	3,752	1,688
Non-current assets	6,592	8,272	11,001	10,330	12,270	1,940
Property, plant and equipment	4,726	6,337	8,362	8,047	9,420	1,373
Intangible assets	85	547	1,032	742	1,207	465
Investments and other assets	1,780	1,388	1,606	1,540	1,642	102
Total assets	21,626	27,036	29,907	27,778	32,252	4,473
Current liabilities	13,259	18,863	18,624	15,878	16,839	961
(Notes and accounts payable—trade)	3,761	4,324	3,889	3,528	4,720	1,192
(Loans payable, corporate bonds, etc.)	6,799	10,743	10,922	9,657	7,644	-2,012
Non-current liabilities	1,542	1,454	2,079	4,265	6,572	2,306
(Corporate bonds, loans payable, etc.)	873	349	958	3,209	5,304	2,094
Total liabilities	14,801	20,318	20,704	20,144	23,412	3,267
(Interest-bearing debt)	7,546	11,010	11,529	12,555	12,675	120
Total net assets	6,824	6,717	9,203	7,634	8,839	1,205
[Stability]						
Current ratio	113.4%	99.5%	101.5%	109.9%	118.7%	8.8pt
Equity ratio	31.6%	24.8%	23.9%	27.5%	27.4%	-0.1pt

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

(2) Cash flow statement

At the end of FY12/21, the balance of cash and cash equivalents had decreased ¥1,785mn YoY to ¥6,250mn. Cash flows used in operating activities were only ¥520mn due to the increase in trade receivables following the recording of sales of large-scale projects and the increase in money received for uncompleted construction work following the acquisition of a subsidiary. Cash flows used in investing activities were ¥1,505mn, so free cash flow was negative ¥985mn. In investing activities, the Company acquired land for a plant in the overseas business and conducted capital investment for the renewable energy business. Cash flows used in financing activities were ¥703mn due to a decrease following the repayment of loans payable and the redemption of corporate bonds.

Consolidated statements of cash flows

(¥mn)

	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	Change
Cash flows from operating activities	1,867	-105	2,416	2,222	520	-1,701
Cash flows from investing activities	-121	-1,402	-2,846	-1,047	-1,505	-458
Cash flows from financing activities	-634	3,030	1,642	-424	-703	-279
Balance of cash and cash equivalents at end of period	4,456	5,969	7,124	7,856	6,250	-1,605

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

Outlook

In FY12/22, the overseas business and household equipment business will continue to perform strongly. Conversely, SG&A expenses are forecast to increase due to investment and bonuses

For FY12/22, the Company kept the forecast unchanged, projecting net sales of ¥40,000mn (up 5.8% YoY), operating income of ¥1,150mn (up 2.7%), ordinary income of ¥1,300mn (down 0.1%), and profit attributable to owners of parent of ¥700mn (up 14.6%). SG&A expenses, which were below the sales increase rate in FY12/21, are expected to increase at a rate higher than the sales increase rate due to the investment in the newly acquired subsidiary and employee bonuses.

Outlook for FY12/22 consolidated results

(¥mn)

	FY12/21 Results	FY12/22 Forecast	YoY	
			Change	% change
Net sales	37,824	40,000	2,176	5.8%
Environmental equipment business	20,130	19,800	-330	-1.6%
(of which, overseas net sales)	1,489	1,700	211	14.2%
Household equipment business	15,875	17,500	1,625	10.2%
Renewable energy business	1,141	2,100	959	84.0%
Other businesses	677	600	-77	-11.4%
Gross profit	7,860	8,558	698	8.9%
SG&A expenses	6,741	7,380	639	9.5%
Operating income	1,119	1,150	31	2.7%
Environmental equipment business	1,688	1,541	-147	-8.7%
Household equipment business	370	558	188	50.7%
Renewable energy business	179	271	92	51.2%
Other businesses	120	-		
Adjustment	-1,238	-		
Ordinary income	1,300	1,300	0	-0.1%
Profit attributable to owners of parent	610	700	90	14.6%

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

In the environmental equipment business, the forecasts are for net sales to decrease 1.6% YoY to ¥19,800mn and operating income to decline 8.7% to ¥1,541mn. Earnings from large-scale projects in Japan will decline, so net sales in Japan are expected to fall 3.7%. Overseas net sales are forecast to increase 14.2% to ¥1,700mn. The large-scale project in Iraq that contributed in FY12/21 will continue. The progress of overseas projects has been delayed due to COVID-19, but travel restrictions are gradually being eased. The assembly plant in Sri Lanka will start operations from May 2022, while the Company's own plant in India will start operations from September of the same year. Once it is fully operational, the India plant will replace the imports of products from Indonesia that are relatively expensive, such as due to transportation expenses and custom duties. Its fully-fledged contribution to results will be from FY12/23 onwards, and at FISCO we think it will accelerate growth in India.

In the household equipment business, the forecasts are for net sales to increase 10.2% YoY to ¥17,500mn and segment profit to rise 50.7% to ¥558mn. This segment is mainly wholesale with an operating income margin of 2% to 3%, and so far construction work has been carried out by the subsidiaries of Fujiwara Reiki Co., Ltd., Sanei Ecohome, and Alumi kobo Hagio Co., Ltd. The percentage of total net sales from highly profitable construction work will rise, and this is a factor behind the forecast of a significant increase in profits. Also, sales are expected to be recorded from the completion of DCM store construction work.

In the renewable energy business, the forecasts are for net sales to increase 84.0% YoY to ¥2,100mn and segment profit to rise 51.2% to ¥271mn. Sanei Ecohome, which was acquired in October 2021, will contribute for the full fiscal year in FY12/22, and therefore net sales in the solar power business are forecast to grow 73.8%. In the biodiesel fuel business, net sales are expected to increase 42.2% to ¥210mn from the progress made in acquiring customers. In the compact wind power generation business, net sales are set to increase significantly, from ¥14mn in the previous period to ¥90mn. The number of sites connected to the power grid is scheduled to increase by 10 sites during FY12/22 to 24 sites by the end of the period. The target for FY12/25, which is the final year of the medium-term business plan, is 70 sites.

Medium- to long-term growth strategy

Aiming for net sales of ¥45bn and operating income of ¥2bn in FY12/25

1. Medium-term business plan

The medium-term business plan was started originally targeting the three fiscal years, from the first year of FY12/19 to FY12/21. But it had to be suspended due to the major changes to the business environments in Japan and overseas because of COVID-19. Therefore, the Company has newly formulated the "PROTECT x CHANGE" medium-term business plan to cover the three fiscal years from FY12/21 to FY12/23. It has extended the plan to a final year of FY12/25 based on the sustainable growth strategy established from a more long-term perspective. There has been no change to the Company's basic policy, of aiming to become the embodiment of the "PROTECT x CHANGE" corporate slogan and an ESG company.

The numerical targets for FY12/25, which is the final fiscal year of the medium-term business plan, are net sales of ¥45,000mn and operating income of ¥2,000mn. Compared to FY12/21, net sales are expected to increase 19.0% and operating income to rise 78.6%, while the operating income margin will be 4.4% (3.0% in FY12/21). The major contributors to the higher sales will be the household equipment business (up ¥3,125mn compared to FY12/21), the overseas business of the environmental equipment business (up ¥2,511mn), and the renewable energy business (up ¥1,359mn). For the higher profits, the order of contributors will be environmental equipment business (up ¥612mn), renewable energy business (up ¥521mn), and household equipment business (up ¥330mn).

Medium-term business plan Numerical targets

(¥mn)

	FY12/21		FY12/25		vs. FY12/21	
	Results	Ratio to sales	Target	Ratio to sales	Change	% change
Net sales	37,824	-	45,000	-	7,176	19.0%
Environmental equipment business	20,130	53.2%	22,000	48.9%	1,870	9.3%
(of which, overseas net sales)	1,489	3.9%	4,000	8.9%	2,511	168.6%
Household equipment business	15,875	42.0%	19,000	42.2%	3,125	19.7%
Renewable energy business	1,141	3.0%	2,500	5.6%	1,359	119.1%
Other businesses	677	1.8%	1,500	3.3%	823	121.4%
Operating income	1,119	3.0%	2,000	4.4%	881	78.6%
Environmental equipment business	1,688	8.4%	2,300	10.5%	612	36.3%
Household equipment business	370	2.3%	700	3.7%	330	89.0%
Renewable energy business	179	15.7%	700	28.0%	521	290.2%
Other businesses	120	17.8%	150	10.0%	30	24.4%
Adjustment	-1,238	-	-1,850	-		

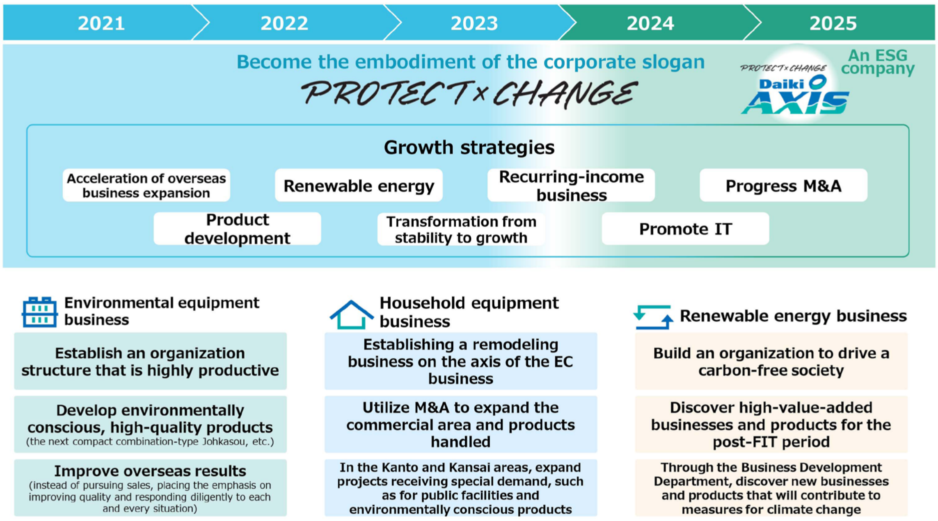
Note: Segment profit margins are based on sales values for the respective businesses
Source: Prepared by FISCO from the Company's results briefing materials

The growth strategy is comprised of "acceleration of overseas business development," "renewable energy," "recurring-income business," "progress M&A," "product development," "Transformation from stability to growth," and "promote IT."

By business, the growth strategies for the environmental equipment business are 1) establish an organization structure that is highly productive, 2) develop environmentally conscious, high-quality products, and 3) improve overseas results. In order to realize carbon neutrality by 2050, the Japanese government has raised-up the bottom value and the volume zone of energy saving performance as the approach for housing and buildings to be aimed for by 2030. The intention is to improve the performance of housing equipment and building materials by strengthening the top runner system. The Company is meeting the requirements of the times through developing environmentally conscious products, such as the next compact combination-type Johkasou. In the overseas business as well, instead of simply pursuing sales, it is placing the emphasis on improving quality and responding diligently to each and every situation.

In the household equipment business, the Company is 1) establishing a remodeling business on the axis on the EC business, 2) utilizing M&A to expand the commercial areas and the products it handles, and 3), in the Kanto and Kansai areas, expanding projects receiving special demand, such as for public facilities and environmentally conscious products. In the renewable energy business, the priority measures are 1) build an organization to drive a carbon-free society, 2) discover high-value-added businesses and products for the post-FIT period, and 3) through the Business Development Department, discover new businesses and products that will contribute to measures for climate change

Overview of the medium-term business plan



Source: The Company's results briefing materials

2. ESG management and related SDGs

The Company's ESG will contribute to the achievement of six of the SDGs. SDGs is the abbreviation of "Sustainable Development Goals," which are the shared goals that international society should achieve by 2030 that were adopted at the United Nations Sustainable Development Summit held in September 2015. There are 17 SDGs that are comprised of 169 targets. In ESG management, for E (Environment), the aim is to promote environment improvements through the Company's activities, and it covers SDGs numbers 6 (Ensure availability and sustainable management of water and sanitation for all), 7 (Ensure access to affordable, reliable, sustainable and modern energy for all), 12 (Ensure sustainable consumption and production patterns), and 13 (Take urgent action to combat climate change and its impacts). S (Social) and G (Governance) cover numbers 5 (Achieve gender equality and empower all women and girls) and 8 (Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all).

"Accelerate overseas business development," which is the first of the growth strategies, is deeply connected to the sixth SDG, which states "Ensure availability and sustainable management of water and sanitation for all." 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.

ESG Management and Relevant SDGs

Environment ~Promotion of environmental improvements through its business~
- Environmental equipment: Work to improve water environments on a global scale to "Ensure availability and sustainable management of water and sanitation for all" through products and services.
- Household equipment: Handle eco-friendly materials, including effective use of thinned lumber.
- Renewable energy: Help to reduce CO_2 emissions and prevent environmental pollution by converting waste oil into biodiesel fuel and making effective use of resources.
  Solar power and compact wind power generation will help to reduce CO_2 emissions, etc. by using renewable energy resources from the natural environment.

Social
- Workstyle reform including personnel systems and establishment of a working environment with job satisfaction
- Social support including activities for awareness toward environmental improvements undertaken together by the government and private sector
- Diversity including promotion of active roles for women, acceptance of various cultures and ways of thinking, and appointment of female board members

Governance
- Separation of management and performance of duties, establishment of a company with an audit committee, and managerial structure reform including the executive officer system
- Increasing the number of outside officers, risk management of the Audit Committee, etc.
- Holding a company information session, transmitting information about ESG and the SDGs

Source: Prepared by FISCO from the Company's website

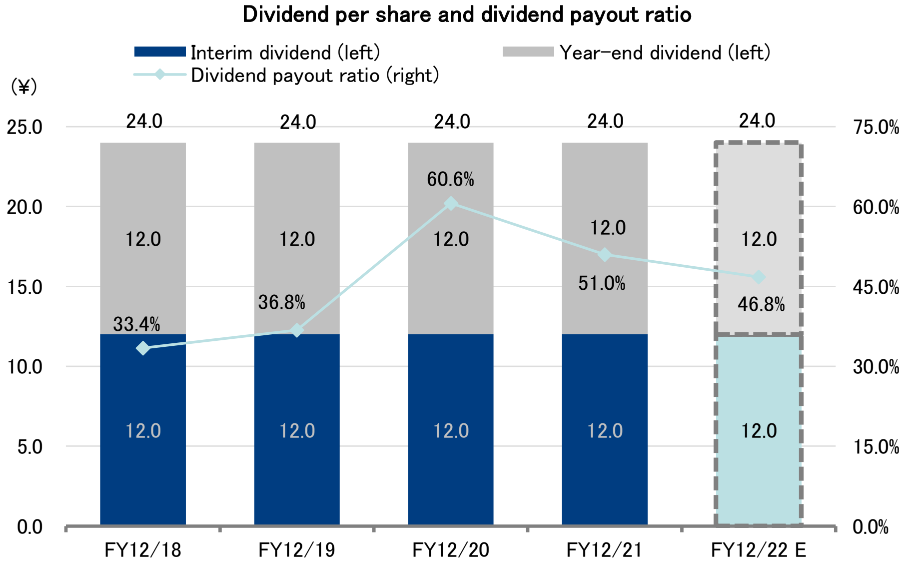
Shareholder return policy

In FY12/22, plans to once again pay an annual dividend of ¥24

The Company's shareholder return policy is premised on a consolidated dividend payout ratio of 30%. Over a period of four fiscal years up to FY12/21, it has continued to pay a dividend of ¥24 per share. In FY12/20, it raised the dividend payout ratio to 60.6% due to factors including the recording of extraordinary loss. In FY12/21, the dividend payout ratio was 51.0%. In FY12/22, 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 46.8%.

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 return policy



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

Disclaimer

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