COMPANY RESEARCH AND ANALYSIS REPORT

gremz, Inc.

3150

Tokyo Stock Exchange First Section

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Summary

Aiming for sustainable growth as an energy solutions company driven by electricity retailing business

1. Energy solutions company

gremz, Inc. <3150> (hereinafter, also referred to as "the Company") lists its shares on the First Section of the Tokyo Stock Exchange (TSE-1) and provides a wide range of products and services related to energy that cover all types of electricity, from low to high voltage, to a broad spectrum of customers from ordinary households to plants, offices, and other locations. Obtained through continuation of appropriate consulting that fits customer needs by sales employees who possess extensive proposal capabilities related to energy since the founding, Group strengths are "sales capabilities supported by an abundant customer base," "robust profitability achieved via differentiation from other companies," and "market environment and growth opportunities." While the Company sustained sales and profit gains from steady income in the Energy Cost Solutions Business and Smart House Project Business and growth in the Electricity Retailing Business up to now, it expects further income expansion driven by the Electricity Retailing Business. Additionally, it is taking steps toward the next growth strategy, including participation in an environmental technology verification program of METI's VPP (virtual power plant, a mechanism for unified control of multiple photovoltaic systems, power storage batteries, and other facilities in distributed locations using energy management technology and usage as a single power plant).

2. Achieved record-high profit for a 5th consecutive fiscal year in FY03/2020

The Company reported FY03/2020 consolidated results of ¥15,489mn in net sales (+27.6% year on year (YoY)) and ¥2,106mn in operating income (+50.4%), increasing sales for a 15th consecutive fiscal year since its founding and posting record-high profit for a 5th consecutive fiscal year. Operating income exceeded initial forecasts by 37.1%. At the segment level, the main driver of overall strong results was a substantially larger profit increase than planned in the Electricity Retailing Business due to lower electricity procurement prices in the market resulting from a decline in electric power demand related to weather factors. Thanks to this, the Company realized high profitability with an ROE of 33.1% and is in sound financial condition with a capital ratio of 59.4%. In light of the strong performance, the Company raised the full-year dividend for a 4th consecutive fiscal year to ¥24.0, made up of a ¥5.0 interim dividend and ¥19.0 period-end dividend.

3. Expecting higher sales and profits again in FY03/2021 and starting the next growth strategy

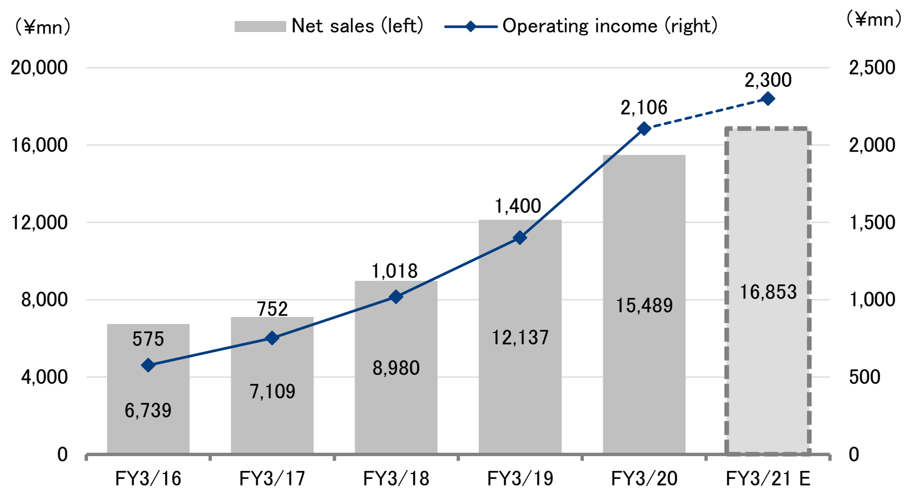
The Company's FY03/2021 forecasts target ¥16,853mn in net sales (+8.8% YoY) and ¥2,300mn in operating income (+9.2%), expecting further sales and profit gains. In the Smart House Project Business, the outlook projects lower profit accompanying a decline in the number of event sales opportunities due to the impact of the COVID-19 outbreak. Additionally, in the Electricity Retailing Business, it forecasts weaker profit, even with just a minor impact from the COVID-19 outbreak, owing to an increase in electricity procurement prices related to weather factors. Meanwhile, profit in the Energy Cost Solutions Business is likely to expand with just a minor impact from the COVID-19 outbreak and a rebound from a decline in profit in the previous fiscal year.

In September 2020, the Company announced a 1-to-2 stock split aimed at raising the stock's liquidity and expanding the investment segment and a dividend hike from the initial target that was on par with the previous fiscal year to ¥14.5, including the ¥12.0 ordinary dividend and a ¥2.5 commemorative dividend marking the stock's switch from the TSE JASDAQ Standard market to TSE-2. We think it might even raise the dividend further if earnings exceed the initial outlook. The Company aims to continue sales and profit increases by securing steady income in the Smart House Project Business and Energy Cost Solutions Business and promoting the Electricity Retailing Business with large latent growth potential. It is also focusing on corporate social responsibility (CSR) and could attract interest as an ESG (environment, social, and governance) choice. The Company ascended from TSE-2 to TSE-1 on November 24, 2020.

Key Points

- Provides a wide range of energy-related products and services under its Energy Cost Solutions Business, Smart House Project Business, and Electricity Retailing Business. Participating in the VPP environmental technology verification program as the next growth strategy
- Posted record-high profit for a 5th consecutive fiscal year in FY03/2020 with the Electricity Retailing Business as a main driver of strong performance and raised the dividend. Reports healthy financial standing and high profitability
- FY03/2021 forecasts call for continued sales and profit increases with only minor impact from the COVID-19 outbreak outside of the Smart House Project Business. Vibrant start with operating income reaching 43.9% of the full-year target in 1Q. Announced a dividend hike to commemorate the shift to listing on TSE-2. Focusing on CSR too and ascended to TSE-1

Results trends



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

Company outline

Comprehensive energy solutions company that provides all types of electricity from low to high voltage

1. Company outline

The Company has steadily grown through provision of energy solutions to customers for improvement of electric power operational efficiency, facilities, and procurement cost with “energy creation, savings, and storage” as main business areas. It currently operates the Energy Cost Solutions Business, Smart House Project Business, and Electricity Retailing Business. As a holding company, it formulates and promotes Group management strategies and oversees management of business companies. Main Group companies are GR consulting, Inc., which provides consulting on reduction of electricity costs for businesses, gremz power, Inc., which handles electricity retailing and intermediation and energy management system sales, and gremz solar, Inc., which sells household photovoltaic systems, storage batteries, and other energy-related products and develops renewable energy.

The electricity market is likely to expand over the long term driven by full liberalization of electricity retailing. The Group delivers a wide range of products and services related to energy that covers all areas from the low-voltage electricity market that supplies power to ordinary households, small and mid-sized factories, and others (less than 50kW in contract power) to the high-voltage electricity market (more than 50kW) that supplies power to factories, supermarkets, and buildings.

The Group has a management philosophy of “filling the world with inspiration and joy” and aims to realize a group of companies that are always appreciated and given support in a changing environment and are capable of permanently coexisting with society. It strives to remove information disparity, spread high value and contribute to building a society that facilitates a prosperous and reassuring life.

2. Group strengths

Group strengths are “sales capabilities supported by an abundant customer base,” “robust profitability achieved via differentiation from other companies,” and “market environment and growth opportunities.”

Regarding “sales capabilities supported by an abundant customer base,” the Group has a robust customer base with approximately 49,500 low-voltage electricity customers (electronic circuit breaker), 14,000 low-voltage lighting power customers (ordinary household solar power), and 2,300 high-voltage electricity customers (power agent) as of FY03/2020. It has an approximately 73% conversion rate from other power companies to its own Group when making retail proposals thanks to cross-selling based on facility and procurement improvement proposals. It intends to continue pursuing differentiation from other companies and increasing customer volume.

Regarding "robust profitability achieved via differentiation from other companies," the Group is capable of sustaining stable earnings, even when electricity procurement prices rise sharply in response to seasonal factors such as in the summer, because of its extensive retail sales to small and mid- sized factories with low load factor (percentage of average used electricity to peak contracted electricity volume). Low load factor means that the amount of electricity consumed versus contracted electricity volume is relatively small. With many customers in industries and businesses that have low load factor, electricity procurement volume is curtailed even at times of upswing in electricity procurement prices, and this makes it easier to secure profitability. In fact, the Company's load factor was 9.3% in FY03/2020, a considerably lower level than the 30–40% at other companies, and its operating income margin climbed to 13.6%. The Group also participates in the VPP environmental technology verification program and hopes to harness test results to obtain new business opportunities, such as selling power storage batteries to customers.

Regarding "market environment and growth opportunities," the Company is capable of targeting rapid growth in the electricity retailing business and expansion of storage battery sales by leveraging the market environment, which boasts increasing earnings opportunities with the full liberalization of the electricity retailing and expansion in the number of users reaching the end of the purchasing period for FIT (a program that requires power companies to purchase electricity from solar power and other renewable energy sources at a fixed price).

3. History

Masaomi Tanaka, the Company's current President and Chief Executive Officer, founded the Company on July 4, 2005. While the Company initially started by selling electronic circuit breakers, it began store sales of household photovoltaic systems in April 2010, started selling LED lighting in December 2012, entered the energy intermediation and began energy management system sales in December 2013, started solar power plant operations in March 2014, and entered the electricity retailing business in December 2016. It has steadily broadened its business scope mainly around energy-related areas.

The Company switched to a holding company system in April 2011 accompanying the business expansion and adopted its current company name. While it initially listed on the JASDAQ Stock Exchange (now, TSE JASDAQ Standard) in March 2009, it shifted to TSE-2 in June 2020 and ascended to TSE-1 in November 2020. The Company had 346 consolidated employees as of March 31, 2020.

History

Date	Main historical events
July 2005	The Company was founded with a view towards reducing energy costs as well as environmental load. Started sales of electronic circuit breakers.
July 2007	Started sales of fully electric appliances (EcoCute and induction heating cooking heaters).
March 2009	Listed on the JASDAQ Securities Exchange (later renamed TSE JASDAQ Standard).
April 2010	Started sales of photovoltaic systems.
April 2011	Renamed the company gremz, Inc. and established it as a holding company. Founded gremzsolar, Inc. and GR consulting, Inc.
December 2012	Founded GF lightec, Inc. Started sales of LED lighting systems.
December 2013	Concluded a comprehensive contract with ENERES Co., Ltd., which handles electricity management and other services, and started conducting energy intermediation and sales of energy management systems.
March 2014	Started operating a solar power plant as a renewable energy development business.
September 2014	Formed a capital alliance with ENERES Co., Ltd.
May 2015	gremzsolar, Inc. began the operation of a solar power plant in Tsumagoi.
February 2016	Renamed GF lightec, Inc. as gremz power, Inc. due to business reorganization.
April 2016	Separated the energy intermediation and energy management system sales business from GR consulting, Inc. and transferred it to gremz power, Inc.
May 2016	gremzsolar, Inc. began the operation of a solar power plant in Futokoroyama.
November 2016	Registered gremz power, Inc. as an electricity retailing company.
December 2016	gremz power, Inc. entered the electricity retailing business.
May 2018	gremz power, Inc. started electricity retailing to high-voltage electricity customers. Participated in an environmental technology verification program centered around VPP (virtual power plant) technology, as a resource aggregator.
June 2020	Changed Stock Market listing to the Second Section of Tokyo Stock Exchange (TSE-2)
November 2020	Ascended to the First Section of Tokyo Stock Exchange (TSE-1)

Source: Prepared by FISCO from the Company's webpage and securities report

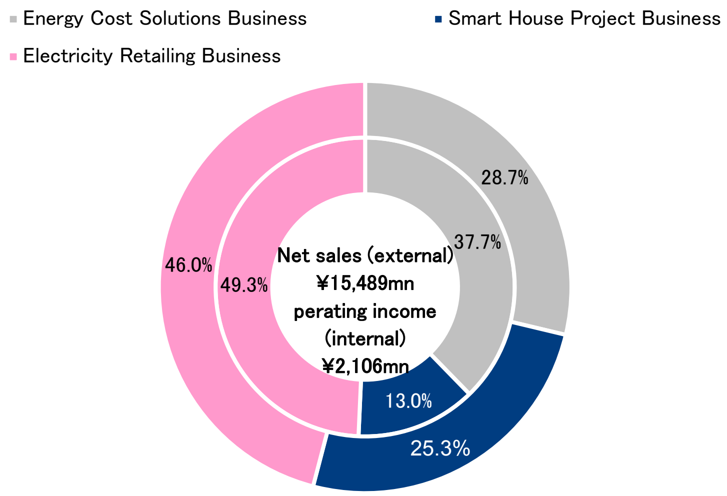
Business description

Conducts business focused on energy-related products and services

The Group has developed businesses focused on energy-related products and services. gremz is a rare comprehensive energy solutions company that provides solutions to customers for improvement of electric power operational efficiency, facilities, and procurement cost covering the full range of electricity from low to high voltage.

Business segment results in FY03/2020 show the Energy Cost Solutions Business, which sells a variety of energy-efficient appliances, had ¥4,450mn in net sales (28.7% of the Company's total) and ¥1,042mn in operating income (37.7%), the Smart House Project Business, which sells storage batteries and household photovoltaic systems, had ¥3,924mn in net sales (25.3%) and ¥359mn in operating income (13.0%), and the Electricity Retailing Business, which engages in retail sales of electricity, had ¥7,115mn in net sales (46.0%) and ¥1,362mn in operating income (49.3%). While the Electricity Retailing Business is a new business that the Company separated into an independent division in FY03/2018, it has already grown into an important business that accounts for about half of overall operating income.

Net sales and operating income for FY3/20 by segment



Note: Composition of operating income was calculated prior to deducting Companywide costs
Source: Prepared by FISCO from the Company's results briefing materials

1. Energy Cost Solutions Business

Mainly proposes energy cost reductions to corporations through subsidiaries GR consulting and gremz power

GR consulting provides consulting on electricity cost reductions to small and mid-sized businesses and other low-voltage electricity customers. Electricity cost reductions for low-voltage customers realize operational improvement by cutting fixed monthly basic electricity charges while ensuring sufficient electricity supply via proposals to change the electricity contract type and install electronic circuit breakers. GR consulting sells electronic circuit breakers through lease and credit and conducts replacement sales after the leasing period finishes. There is also a rental option for customers who want to rent. Additionally, regarding facility improvement, it sells various energy-efficient appliances, such as LED lighting, commercial air conditioners, and freezers. It conducts sales activities nationwide from business sites in Tokyo, Osaka, and Nagoya.

Meanwhile, gremz power provides consulting services for electricity cost savings to high-voltage electricity customers. Specifically, it proposes energy intermediation by revisions to electricity procurement partners that improve procurement terms and arranges power sales to realize cutbacks in electricity fees. Regarding operational efficiency improvement, it sells energy management systems (EMS) that monitor electricity usage conditions. Furthermore, in relation to facility improvement, it conducts cross-selling of LED lighting, commercial air conditioners and compressors, and other energy-efficient appliances.

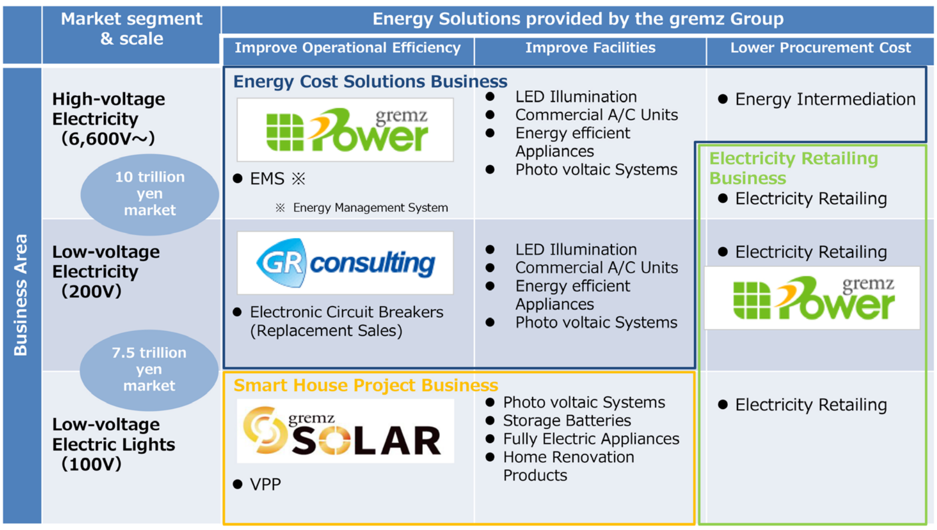
2. Smart House Project Business

This business improves facilities by selling energy-related products, such as household photovoltaic systems and storage batteries, and develops renewable energy with subsidiary gremzsolar handling sales of a variety of products to general consumers. For household photovoltaic systems and storage batteries, the Company handles products from Choshu Industry Co., Ltd., Kyocera <6971>, Panasonic <6752>, and Omron <6645>, and the average sales price per system is roughly ¥2mn. Sales activities consist of selling at event sites at Aeon Mall <8905> venues and other large retail facilities where families gather and selling via introductions made by housing manufacturers and other companies that are business partners. Additionally, the Company handles consignments of outsourced projects, such as roof painting related to photovoltaic system installations. In the renewable energy development business, it has recurring revenue sources from income generated by selling electricity from solar power plants (mainly megasolar sites owned in Gunma Prefecture and Shizuoka Prefecture). It is also a participant in the VPP environmental technology verification program for operational improvement.

3. Electricity Retailing Business

gremz power was registered as an electricity retailing business in November 2016, and commenced operation in December of the same year. Electricity Retailing Business involves selling electricity procured from an electric power exchange that is operated by public interest incorporated organization Japan Electric Power Exchange (JEPX) as an intermediary corporation, or electricity procured from power generating companies by mutual agreement to consumers of low and high voltage electricity, and generating revenue from electricity fees obtained from customers every month. As a means of procurement improvement, customers can purchase electricity at a price that is comparatively cheaper than purchasing it from a general electric utility. Although gremz power initially sold exclusively to consumers of low voltage electricity, the company has been expanding its sales targets to consumers of high voltage electricity since May 2018.

Products and Services Handled by the Electricity Market and the Group



Source: From the Company's results briefing materials

Business trends

Reported sharply higher sales and profits in FY03/2020, 5th consecutive fiscal year with record-high profit

1. FY03/2020 results overview

While the Japanese economy modestly recovered in FY03/2020 with improvements in employment and income and a rebound in personal consumption, it faced difficult period-end conditions and prospects as a result of the consumption tax hike's impact on spending and setbacks in overall economic activity from the COVID-19 outbreak.

In this economic environment, the Group promoted improvements to customer's operations through the Energy Cost Solutions Business by consulting to lower base electricity fees; promoting equipment improvements for facilities through sales of energy-efficient appliances such as LED lighting, commercial air conditioners, transformers, compressors; and promoting procurement improvements through energy intermediation aimed at lowering electricity rates. In the Smart House Project Business, it supported facility improvement by selling household photovoltaic systems, storage batteries, and other energy-related products. In the Electricity Retailing Business, it encouraged procurement improvement with retail provision of electricity, from low to high voltage, to a wide range of customers. In this way, the Group proposed electricity operation, facility, and procurement improvements to customers and delivered various energy-related products and services.

Thanks to these activities, the Company reported sharply higher FY03/2020 consolidated results of ¥15,489mn in net sales (+27.6% YoY), ¥2,106mn in operating income (+50.4%), ¥2,168mn in ordinary income (+49.7%), and ¥1,483mn in profit attributable to owners of parent (+48.1%), increasing sales for a 15th consecutive fiscal year since its founding and posting record-high profit for a 5th consecutive fiscal year. Operating income exceeded the initial target announced on May 10, 2019 by 31.7%, thereby lifting the operating income margin from 11.5% in the previous fiscal year to 13.6%.

FY3/20 consolidated income statement

(¥mn)

	FY3/19		FY3/20			YoY		vs. targets	
	Results	% of sales	Forecast	Results	% of sales	YoY change	% change	YoY change	% change
Net sales	12,137	100.0%	15,830	15,489	100.0%	3,351	27.6%	-341	-2.2%
Operating income	1,400	11.5%	1,600	2,106	13.6%	705	50.4%	506	31.7%
Ordinary income	1,448	11.9%	1,633	2,168	14.0%	719	49.7%	534	32.7%
Profit attributable to owners of parent	1,001	8.3%	1,071	1,483	9.6%	481	48.1%	411	38.4%

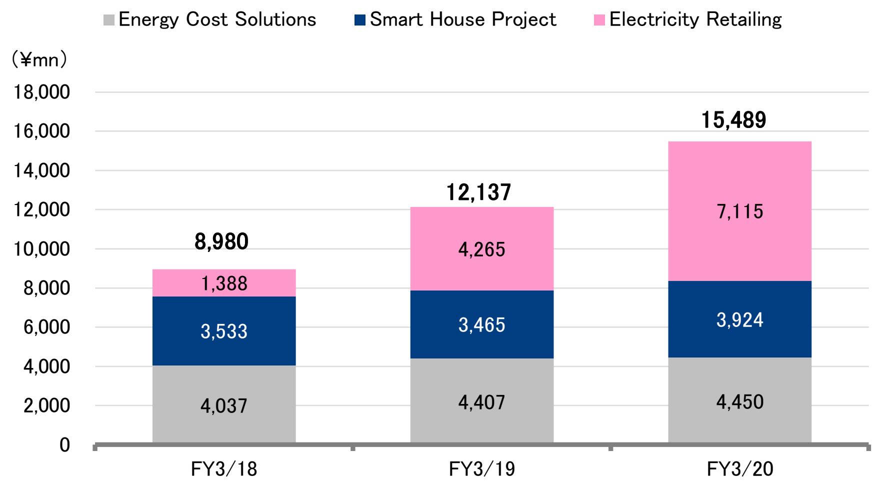
Note: Targets are period-start values disclosed on May 10, 2019
Source: Prepared by FISCO from the Company's financial results

The Energy Cost Solutions Business promoted sales of commercial air conditioners, transformers, compressors, and other energy-efficient appliances. Segment FY03/2020 results were ¥4,450mn in net sales (+1.0% YoY) and ¥1,042mn in profit (-18.6%). The segment income margin temporarily weakened due to shifting personnel to various energy-efficient appliances sales in order to foster sales personnel. On the other hand, order backlog carryover increased.

The Smart House Project Business aggressively promoted sales of storage batteries and household photovoltaic systems utilizing tie-up sales methods, such as alliance sales with housing manufacturers and VPP initiatives. It also boosted standalone sales of storage batteries by making proposals for consumption of self-generated power at homes ahead of an anticipated increase in FIT projects reaching the end of the 10-year fixed-price purchasing period for solar power generation. Segment FY03/2020 results were ¥3,924mn in net sales (+13.2% YoY) and ¥359mn in profit (+19.9%).

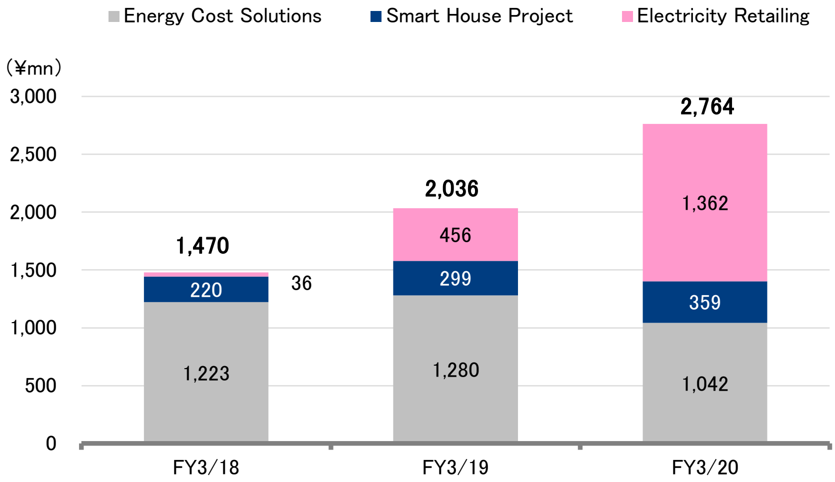
The Electricity Retailing Business promoted retail sales of electricity to existing customers in the Energy Cost Solutions Business and steadily increased sales owing to a high contract closure rate of about 73% that lifted contract volume to about 34,000 customers by the end of March 2020. Furthermore, the segment income margin climbed significantly in FY03/2020 on low electricity procurement prices in the market due to weaker electricity demand related to weather factors, such as a lengthy rainy season and warm winter. Segment results were ¥7,115mn in net sales (+66.8%) and ¥1,362mn in profit (+198.7%). The Electricity Retailing Business hence posted sharply higher sales and profits, and its robust upside versus initial forecasts led to strong company performance.

Segment sales trends



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

Segment income trends



Note: Segment income values are prior to deducting Companywide costs
Source: Prepared by FISCO from the Company's financial results

Realized high profitability and sound finances

2. Financial condition and cash flow situation

Looking at the financial condition at the end of FY03/2020, current assets rose by ¥1,139mn versus the end of the previous fiscal year on gains in cash and deposits and accounts receivable. Fixed assets increased by ¥571mn due to improvements in investment securities along with lease and guarantee deposits. Total assets hence increased ¥1,711mn to ¥8,638mn. In liabilities, current liabilities expanded by ¥422mn due to increases in income taxes payable and accounts payable, while fixed liabilities dropped by ¥1mn. Total liabilities therefore rose by ¥421mn to ¥3,504mn. Net assets improved by ¥1,290mn to ¥5,133mn, mainly due to an increase in profit attributable to owners of parent.

Given these trends, the Company's capital ratio increased from 55.4% in the previous fiscal year to 59.4% at the end of FY03/2020, confirming very strong financial soundness. The results also lifted profitability with ROE improving from 27.4% to 33.1%. The Company's results are well above averages for companies that listed on TSE-1 in FY03/2020, a capital ratio of 30.91% and ROE of 6.57%, based on listed-company consolidated abbreviated financial statement totals provided by Japan Exchange Group <8697>.

Consolidated balance sheet and management indicators

(¥mn)

	FY3/19	FY3/20	YoY change
Current assets	5,277	6,417	1,139
(Cash and deposits)	3,490	4,176	685
(Accounts receivable)	1,163	1,545	381
Fixed assets	1,649	2,221	571
Tangible fixed assets	1,127	1,081	-46
Intangible fixed assets	33	16	-16
Investments and other assets	488	1,123	634
Total assets	6,926	8,638	1,711
Current liabilities	2,237	2,660	422
Fixed liabilities	845	844	-1
(Interest-bearing debt)	1,250	1,188	-62
Total liabilities	3,083	3,504	421
Net assets	3,843	5,133	1,290
Soundness			
Liquidity ratio	235.9%	241.2%	
Capital ratio	55.4%	59.4%	
Profitability			
ROA (Ordinary income to total assets ratio)	22.0%	27.9%	
ROE (Return on equity)	27.4%	33.1%	

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

Cash and cash equivalents increased ¥685mn YoY to ¥4,176mn at the end of FY03/2020.

Looking at cash flow trends in FY03/2020, funds obtained from operating activities totaled ¥1,600mn (compared to ¥852mn in the previous fiscal year) mainly due to an increase of ¥2,165mn in net income before taxes and other adjustments and ¥146mn in increase in notes and accounts payable, despite setbacks of ¥381mn in increase in notes and accounts receivable and ¥510mn in corporate tax and others.

Funds spent on investing activities totaled ¥660mn (compared to ¥113mn in the previous fiscal year). The main outflow factors were ¥500mn in purchase of investment securities and ¥106mn in lease and guarantee deposits.

Funds spent on financing activities totaled ¥254mn (compared to ¥744mn in the previous fiscal year). This resulted from ¥512mn in repayment of long-term loans payable and ¥191mn in dividend payouts, despite an increase of ¥450mn in proceeds from long-term loans payable.

Cash flow statement

(¥mn)

	FY3/19	FY3/20	YoY change
Cash flow from operating activities	852	1,600	748
Cash flow from investing activities	-113	-660	-547
Cash flow from financing activities	-744	-254	490
Ending cash & cash equivalent balance	3,490	4,176	685

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

Outlook

Expecting higher sales and profits for an 8th consecutive fiscal year in FY03/2021 with limited impact from the COVID-19 outbreak

1. FY03/2021 forecasts

While the Company did not provide FY03/2021 forecasts at the announcement of FY03/2020 results due to difficulty rationally calculating the impact of the COVID-19 outbreak, it disclosed consolidated forecasts on June 1, 2020 using an assumption of stagnation in economic activities related to the Group lasting through June in light of a pick-up in the economy following removal of the declared state of emergency.

The Company's FY03/2021 forecasts target ¥16,853mn in net sales (+8.8% YoY), ¥2,300mn in operating income (+9.2%), ¥2,318mn in ordinary income (+6.9%), and ¥1,546mn in profit attributable to owners of parent (+4.3%). Reaching these targets means delivering higher sales and profits for an 8th consecutive fiscal year and setting record-high operating income for a 6th consecutive fiscal year.

At the segment level, while impact from the COVID-19 outbreak should be negligible on the Energy Cost Solutions Business and Electricity Retailing Business, the Company expects the Smart House Project Business to confront substantial pressure due to a decline in the number of sales events at major shopping centers through June and then exhibit gradual recovery from July and a return to normal during 3Q. For segment profit, it projects a 42.6% increase in Energy Cost Solutions Business, including a rebound from the previous fiscal year's decline, while in Electricity Retailing Business, it has conservatively factored in increases in electricity procurement prices stemming from weather factors, and projects a modest decrease of 10.5% YoY. It also forecasts a 21.8% decrease in the Smart House Project Business, which relies on event sales to generate 70–80% of segment income.

FY3/21 consolidated results outlook

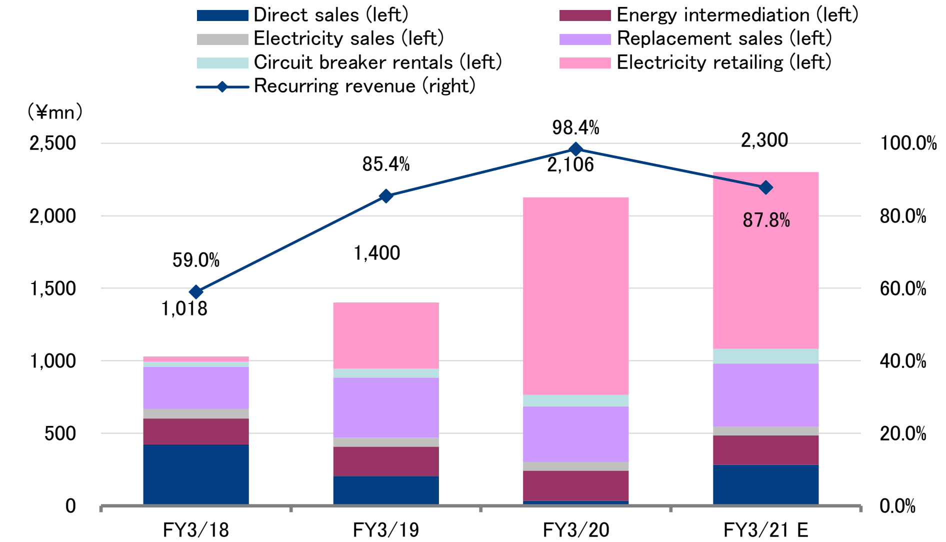
(¥mn)

	FY3/20		FY3/21		YoY	
	Results	% of sales	Forecast	% of sales	YoY change	% change
Net sales	15,489	100.0%	16,853	100.0%	1,364	8.8%
Operating income	2,106	13.6%	2,300	13.6%	193	9.2%
Ordinary income	2,168	14.0%	2,318	13.8%	149	6.9%
Profit attributable to owners of parent	1,483	9.6%	1,546	9.2%	63	4.3%

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

Breaking down the Company's consolidated operating income, recurring revenue (revenue other than non-recuring revenue from direct sales) rose from 59.0% in FY03/2018 to 98.4% in FY03/2020 due to the expansion of the electricity retailing business. An increase in the share of stable profits implies low risk of profits missing forecasts.

Composition of consolidated operating income



Note: Direct sales generate flow profits, and other businesses provide recurring profits
Source: Prepared by FISCO from the Company's results briefing materials

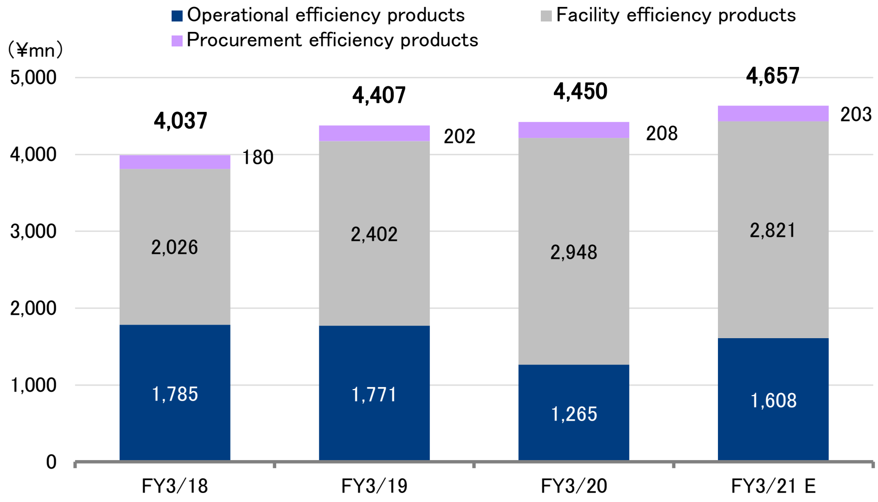
Continuing growth with the Electricity Retailing Business as the driver and also pursuing new growth strategies

2. Strategies by business segment

The Energy Cost Solutions Business delivers total solutions for improving operations, facilities, and procurement to low-voltage and high-voltage electricity customers. This involves sales of energy management systems and electronic circuit breakers as operational improvement, sales of LED lighting, compressors, transformers, commercial air conditioners, freezers, and other energy-efficient appliances as facility improvement, and energy intermediation as procurement improvement. This business acquires new customers by consulting to lower base electricity fees and sales of LED lighting and other energy-efficient appliances, and resulting expansion of the customer base drives gains in recurring revenue from replacement sales, energy intermediation fees, and electronic circuit breaker rental income and contributes to cross-selling of commercial air conditioners, transformers, compressors, and other energy-efficient appliances.

The segment intends to continue promoting sales of energy efficient appliances and expanding sales of electronic circuit breakers that improve operations in FY03/2021 amid firm demand for reducing electricity costs. It is also starting sales of photo-voltaic systems to business operators as a new offering. In products and services, it plans to focus on new customer development with operation improvement equipment and reinforcement of cross-selling activity. Based on these efforts, it targets ¥4,657mn in net sales (+4.7% YoY) and ¥1,486mn in operating income (+42.6%) for the segment. The Company also does not anticipate much impact from the COVID-19 outbreak because customers exhibit strong demand for cost-saving products regardless of economic trends and it uses a sales format of setting up visits by coordinating individually with customers.

Sales trends by products and services in the Energy Cost Solutions Business



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

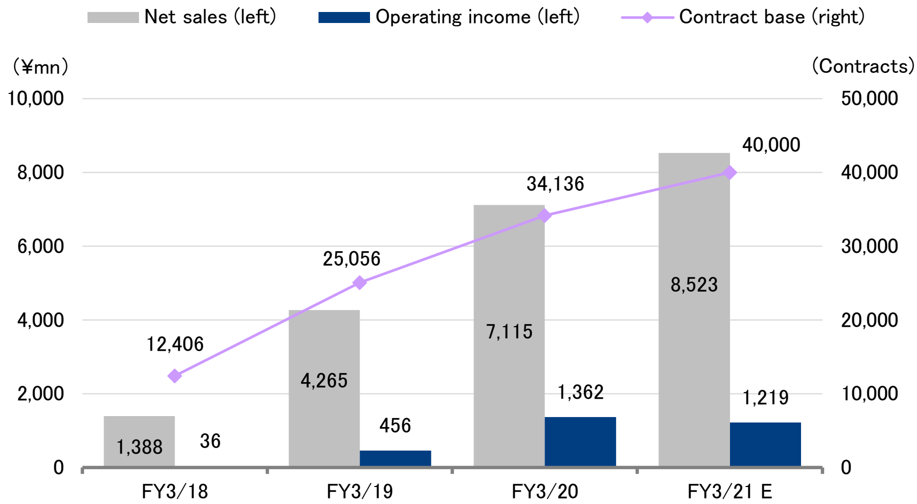
The Electricity Retailing Business sells electricity procured from JEPX and power generating companies at inexpensive pricing to customers and receives electricity charges from customers as the income source. The Company aims to expand income (recurring revenue) in this business by promoting sales of low-priced electricity utilizing its base of low-voltage electricity customers that have a low load factor (percentage of average electricity usage to peak contract electricity) acquired in the Energy Cost Solutions Business and leverage this as the driver of future growth by the overall Group.

The Group has a very high contract closure rate because it addresses customers that have actually realized savings in electricity costs via consulting on electricity cost reduction. Due to targeting businesses with low load factor as well, it seeks differentiation in profitability versus other electricity retailing businesses. Furthermore, the Company aims to expand income opportunities by broadening the scope of electricity retail supply to all electricity users from low to high voltage.

The segment conducts cross-selling to the existing customer base of 49,500, which mainly utilizes electronic circuit breakers, and this aspect is fueling differentiation with other companies. Since factories use different voltages to power machinery and lighting, the segment aims to acquire 99,000 contracts, or twice the number of customers. The Group has reached a 73% conversion rate from other energy companies to itself and only has 0.4% monthly average cancellation rate. With a customer base that has many businesses with low load factor (9.3% in FY3/20), it secures profitability even during upswings in electricity procurement prices driven by seasonal factors, particularly the summer, and hence is capable of sustaining high profitability.

Segment targets in FY03/2021 are 40,000 contracts (+17.2% YoY), ¥8,523mn in net sales (+19.8%), and ¥1,219mn in operating income (-10.5%). Forecasts project weaker profit assuming weather conditions on par with a normal year in the earnings outlook, excluding impacts from a lengthy rainy season and warm winter that led to higher profits in FY03/2020.

Contract volume and results trends in the Electricity Retailing Business



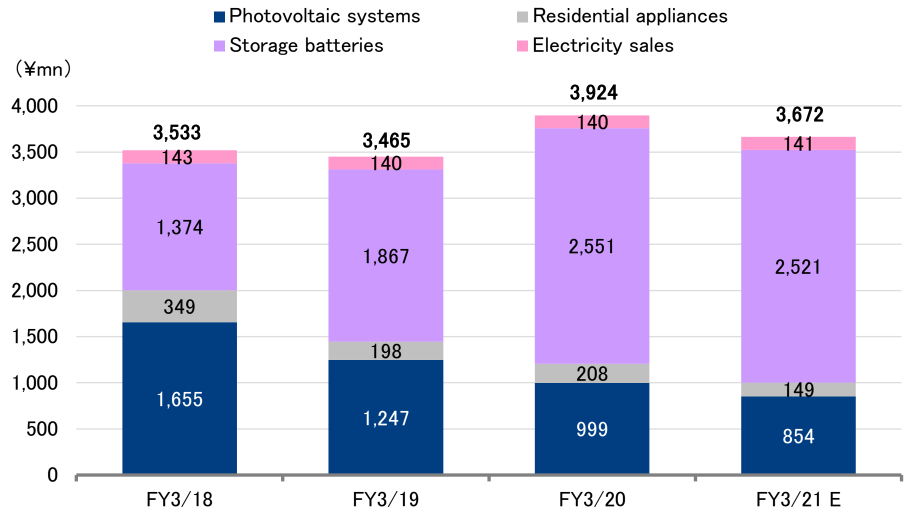
Source: Prepared by FISCO from the Company's results briefing materials

The Smart House Project Business promotes bundled sales of household photovoltaic systems and storage batteries and standalone sales of storage batteries and also conducts tie-up sales of energy-related products through business alliances with various partners. Virtual power plant (VPP) business is likely to ramp up from 2021, and this should drive increased use of storage batteries. The Company intends to bolster storage battery sales by promoting telemarketing, alliance sales, and VPP utilization.

In the solar power market, the number of users reaching the end of the fixed-price purchasing period (for excess power) of the FIT payment program is likely to increase following approximately 500,000 cases in FY03/2020. Since expiration eliminates the ability to sell power generated by solar power facilities at high prices received up to now and increases the appeal of consuming self-generated power, demand for storage batteries should rise. With this equipment, users can maximize benefits from adopting an ideal combination of self-generated power consumption and power sales depending on their own electricity demand format. The Company plans to expand storage battery sales by participating in the VPP environmental technology verification program and also wants to realize the new business opportunity of purchasing surplus power from users.

In FY03/2021, the Company expects ¥3,672mn in net sales (-6.4%), and ¥281mn in operating income (-21.8%), anticipating a decline in the number of sales events due to the temporary suspension of major shopping centers caused by the state of emergency declaration accompanying the COVID-19 outbreak through June, and assuming the segment will exhibit gradual recovery from July and a return to normal during 3Q.

Sales trends in the Smart House Products Business by product and income source



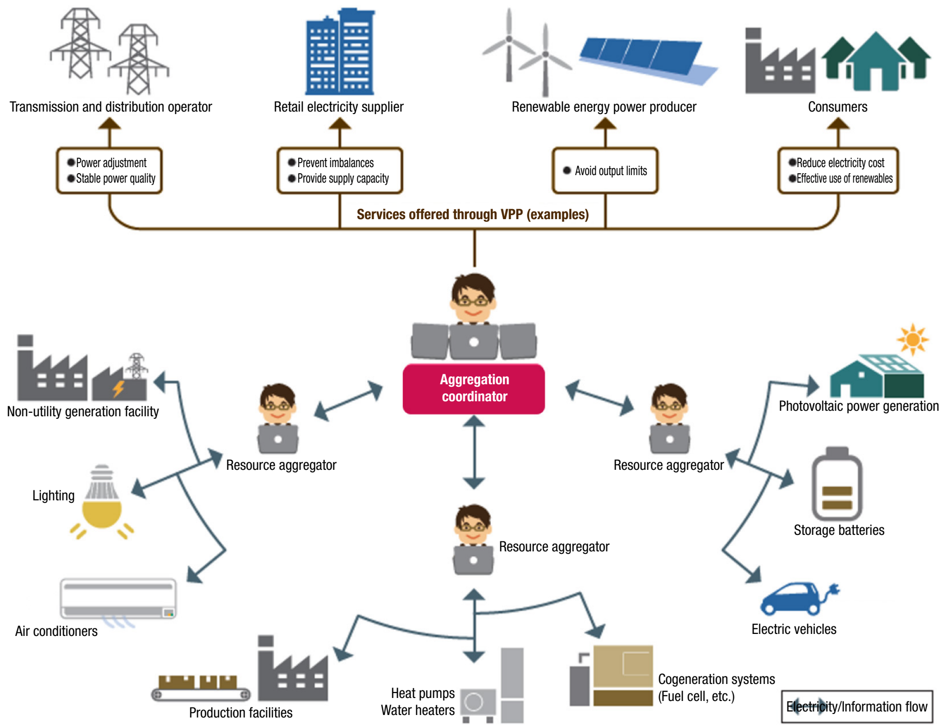
Source: Prepared by FISCO from the Company's results briefing materials

3. New growth strategy

Consolidated subsidiary gremzsolar announced on May 29, 2020 that it will participate in the "environmental technology verification program for building a virtual power plant (VPP) utilizing customer-side energy resources" implemented by METI. The project aims to build a framework to consolidate and control solar power, storage batteries, and other energy resources distributed at customers for use in a manner comparable to a single power plant (virtual power plant) and realize supply and adjustment capabilities related to electricity supply and demand in an era of separated power generation and transmission segments and high-volume deployment of renewable energy.

The Company's main purpose in joining the environmental technology verification program is acquiring a storage battery management technology base and collecting actual control data, though it intends to harness test results for new business opportunities, such as strengthening power storage battery sales (expansion of non-recurring revenue) and delivering storage battery management services and buying surplus power (creation of new recurring revenue). It has participated in the environmental technology verification program since FY03/2019, and FY03/2021 will be the project's final fiscal year. The Company is currently considering market entry ahead of the establishment of a supply-demand adjustment market (being launched to gain approval of broad regional procurement and operation of renewable energy across areas) in 2021.

Virtual power plants (VPP) general overview



Source: From METI's Agency for Natural Resources & Energy

The Company plans to continue increasing sales and profits through stable income from the Energy Cost Solutions Business and Smart House Project Business and expansion of Electricity Retailing Business income. While it normally updated the medium-term management plan and announced a new medium-term management plan annually up to now, the Company did not make this announcement in FY03/2021 due to uncertainty related to the COVID-19 outbreak. However, we think official disclosure of the medium-term management plan is meaningful as it clarifies the Company's management policies and enables investors and employees to share a future vision.

Shareholder return policy

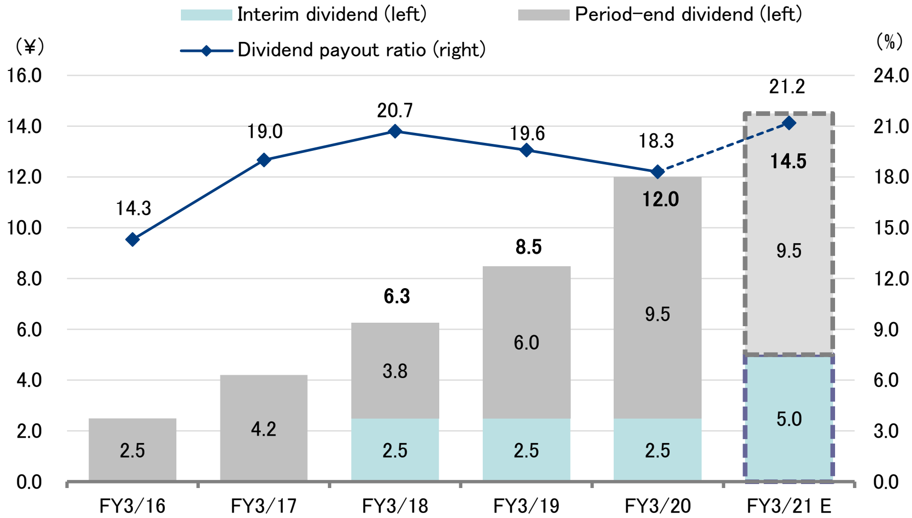
Plans to raise the dividend in FY03/2021 as a commemoration of the TSE-2 listing

The Company pays dividends as a shareholder return measure and has a basic policy related to profit distribution of stably returning profits to shareholders after comprehensive assessment of ensuring sufficient profit retention to bolster the business foundation and enhance enterprise value and allocate earnings to shareholders in according with income trends. It implements stock splits too for the purpose of increasing the liquidity of its shares and broadening the investor segment through reduction of the value per investment unit. The Company conducted a 1-to-2 stock split on September 1, 2020 in FY03/2021. Furthermore, it has paid interim dividends since introducing them in FY03/2018.

In FY03/2021, the Company targeted a dividend on par with the previous fiscal year at ¥12.0 (on a post-split basis) with a ¥2.5 interim dividend and ¥9.5 period-end dividend. However, it decided to include a ¥2.5 commemorative dividend in the interim dividend on July 31, 2020 in commemoration of switching its listing from the TSE JASDAQ Standard market to TSE-2 on June 24, 2020. As a result, dividends are expected to rise for a 5th consecutive fiscal year since FY03/2017. It also works out to a 21.2% dividend payout ratio that clears the Company's 20% goal. After that, the Company ascended from TSE-2 to TSE-1 on November 24, 2020.

Meanwhile, the Group also proactively promotes corporate social responsibility (CSR). Its fundamental policy calls for enhancement of corporate value and provision of solutions to issues confronting society and the environment and contribution to sustainable advances in society by constantly sustaining provision of products and services that meet societal needs and creating new value. Products and services handled by the Group help reduce burden on the global environment. The Group supports Yokohama FC, a J1 professional soccer team, as an official club partner. Its announcement on July 1, 2020 of a decision to launch Yokohama FC Denki, an electricity fee plan that assists the club, and allocate a portion of collected electricity fees to training environment facilities is a type of CSR as well. A growing number of institutional investments are making ESG investments (investing in stocks that emphasizes the environment, social, and governance aspects) in Japan too in recent years. We think the Company's stock also deserves attention from this perspective.

Dividend per share and dividend payout ratio



Note: Retroactively revised dividends on a post-split basis, taking into account the following stock splits: 1-to-1.5 shares in October 2017, 1-to-2 shares in August 2018, and 1-to-2 shares in September 2020. The FY3/21 interim dividend includes a ¥2.5 commemorative dividend for the move to TSE-2.
Source: Prepared by FISCO from the Company's financial results

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