Borderless IR

Daiki Axis Co., Ltd. (4245, First Section, Tokyo Stock Exchange) issues Operating Performance for the Fiscal Year Ended Dec. 31, 2018

TOKYO—Daiki Axis (TOKYO: 4245) is pleased to announce its results for the fiscal year ended December 31, 2018.

Summary of Results

The fiscal year ended December 31, 2018 was the "JUMP" year in the "HOP-STEP-JUMP" procession outlined in the Company's medium-term management plan, V-PLAN60, and also marked the 60th year since the Company's founding. During this year, Daiki Axis worked to meet the numerical targets of its medium-term management plan. The Company's main business strategy was to focus on ensuring future revenue and profits through several initiatives. First, in the environmental equipment segment, the Company strengthened the management of its recurring-revenue energy service company (ESCO) businesses in the areas of maintenance and water utilities, and bolstered sales overseas. Second, in the household equipment-related business segment, Daiki Axis remained faithful to a style of sales that adheres faithfully to the Company's roots, while cultivating new customers. Third, the Company strengthened development and sales in the renewable energy segment to help expand future demand and contribute to the realization of a recycling society.

During the fiscal year ended December 31, 2018, the Company generated net sales of JPY36,224 million (up 7.9% YoY), operating income of JPY923 million (down 19.3% YoY) and ordinary income of JPY1,100 million (down 18.0% YoY). Profit attributable to owners of parent was JPY861 million (up 15.7% YoY). Profit attributable to owners of parent was JPY861 million (up 15.7% YoY). These efforts helped to push gross profit up to JPY6,887 million (up 5.0% YoY), but the gross profit margin was 19.0% (down 0.5 percentage point YoY). High and rising cost of sales, coupled with low prices when orders were received led to a lower gross profit margin. The company undertook measures to counter this situation and improve order prices in line with higher cost of sales. Selling, general and administrative (SG&A) expenses came to JPY5,964 million (up 10.1% YoY), due mainly to rising personnel costs but affected also by temporary costs related to the Company's 60th anniversary project and to M&A-related expenses. Based on revisions to the shareholding policy, which were based on the Company's corporate governance code, JPY479 million in gains on sales of securities was recorded as extraordinary income while a JPY52 million loss on sales of non-current assets (loss on the sale of land related to the relocation of a subsidiary) and a JPY24 million loss on retirement of non-current assets (water-related and sales facilities) were recorded as extraordinary losses. The year ended December 31, 2018 marked the seventh consecutive year that net sales have risen since the company began announcing its forecasts (for the fiscal year ended December 31, 2011). Also, profit attributable to owners of parent reached a record high.

In the environmental equipment segment, sales of wastewater treatment systems rose year on year. Sales in Japan were affected mainly by the introduction of the percentage-of-completion method for recognizing revenues on large-scale projects (a factory for electronic components). However, overseas sales, which the Company is positioning as strategic, dropped significantly year on year. The fall was due to the completion of a large overseas project (in China) in the previous year, whereas no corresponding projects were recorded for the year under review. The Company is in the process of reinforcing its production of wastewater treatment systems. Until the previous fiscal year, overseas manufacture was conducted only in Indonesia (through a wholly owned subsidiary). During the year ended December 31, 2018, the Company commenced manufacture in China (through a 49%-owned subsidiary), and in the next fiscal year plans to begin manufacturing in India. Sales increased in recurring-revenue energy service company (ESCO) businesses in the areas of maintenance and water utilities. Segment income (operating income) was affected by higher outsourcing costs, including a construction project that generated losses of JPY56 million, as well as efforts to improve orders. Segment sales accordingly amounted to JPY18,513 million (up 12.6% YoY), and segment profit (operating income) was JPY1,394 million (up 2.8% YoY).

In the household equipment-related business segment, the Company made general progress with its efforts to cultivate customers and generate construction-related sales, and results were similar to the previous year. Sales of retail products through DIY stores fell year on year, despite new stores going into business, because of reduced sales to existing stores. Construction of stores—recorded in this segment's sales for the first time this fiscal year—increased substantially. Consequently, sales amounted to JPY15,812 million (up 1.5% YoY), while segment income (operating income) was JPY569 million (down 1.7% YoY).

In the renewable energy segment, the Company began recording subsidiary income from solar power generation in the second quarter of the previous fiscal year. During the current fiscal year, the Company recorded subsidiary income from solar power generation starting from the beginning of the year and sales of electric power have been steady since the second quarter. Results therefore increased significantly year on year. Sales of biodiesel fuel were also up year on year. The Company posted no sales results for the compact wind generation business. Consequently, segment sales come to JPY287 million (up 65.4% YoY), and the segment loss (operating loss) was JPY65 million (compared with a segment loss of JPY163 million in the previous fiscal year).

In other segments, during the previous fiscal year, the Company recorded subsidiary construction sales in the engineering business starting in the second quarter. In the current fiscal year, the Company recorded these sales from the beginning of the year. The household drinking water business posted a year-on-year increase. As a result, segment sales were JPY1,611 million (up 18.8% YoY) and segment income (operating income) was JPY97 million (down 44.9% YoY).

Within other segments, the Company has renamed the CreCla business as the household drinking water business. This change does not affect segment information.

On the same day, the Company also formulated a new medium-term management plan, "Make FOUNDATION Plan." This plan sets new targets for period from 2019 to 2021. Targets for the fiscal year ending December 31, 2019 are for net sales of JPY36,880 million, ordinary income of JPY1,300 million and profit attributable to owners of parent of JPY800 million.

Daiki Axis Co., Ltd. (4245, First Section, TSE) "Summary of Consolidated Financial Results for the Fiscal Year Ended December 31, 2018" is available here:
http://www.daiki-axis.com/ir/info/index09.html

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