Borderless IR

Borderless IR Co., Ltd. Announces Newsletter

March 10, 2020

Daiki Axis Co., Ltd. (4245, First Section, Tokyo Stock Exchange) Overview of Operating Performance for the Year Ended December 31, 2019

In the fiscal year ending December 31, 2020, the Company will target a substantial increase in income as the renewable energy segment greatly contributes to income expansion.

Summary of Results

During the fiscal year ended December 31, 2019, the Company formulated Make FOUNDATION Plan (Promote ESG), a medium-term management plan spanning from the fiscal year ended December 31, 2019 to the fiscal year ending December 31, 2021, and established related targets. As a first step, the Company reformed its management structure by establishing an internal audit and supervisory committee and implementing an executive officer with the goal of strengthening governance and accelerating operational performance.

The Company's main business strategy is to focus on ensuring future revenue and profits through several initiatives. First, in the environmental equipment segment, the Company is bolstering sales overseas and strengthening the management its recurring-revenue the energy service company (ESCO) businesses of water utilities and the maintenance. Second, Daiki Axis is launching an e-commerce business while transitioning from businesses that prioritize stability to businesses that prioritize growth in the household equipment segment. Third, in the renewable energy segment the company is working to realize a recycling society and striving to shore up stable revenue and profits.

Net sales in the fiscal year ended December 31, 2019 were JPY35,749 million (down 1.3% YoY), but the Company promoted comprehensive income improvement measures that boosted gross profit to JPY6,968 million (up 1.2% YoY). Selling, general and administrative expenses shrank, with particular contraction in personnel expenses, and operating income finished at JPY1,000 million (up 8.4% YoY) while ordinary income came in at JPY1,155 million (up 4.9% YoY). The Company recorded JPY188 million in impairment loss in the environmental equipment segment under extraordinary losses and posted JPY81 million in compensation income as extraordinary income. Additionally, In the previous fiscal year, the Company recorded a one-time gain on sales of investment securities of JPY479 million due in part to a revision to its cross-shareholdings policy. Consequently, profit before income taxes fell to JPY1,063 million (down 29.3% YoY). In terms of tax expenses, the Company incurred lower current income taxes because it utilized loss carried forward from REC Industries acquiring it through an absorption merger. Furthermore, the Company transferred solar power generation equipment to Sylphid Inc., issued it an allocation of non-voting shares with dividend preference, and recorded JPY48 million in profit attributable to non-controlling interests. Consequently, profit attributable to owners of parent decreased to JPY782 million (down 9.1% YoY).

In the environmental equipment segment, sales of wastewater treatment systems were flat year on year. In terms of domestic sales, the Company succeeded in raising orders for large-scale projects related to electrical component factories, and the Company recorded earnings from maintenance. As for overseas sales, CRYSTAL CLEAR CONTRACTOR PTE. LTD., a Singaporean pool maintenance company the Company acquired in November 2018, began recording stable sales in the period under review.
In the water utilities business (excluding ESCO), the Company completed six projects involving the sale of equipment and sales finished up year on year. Additionally, the Company began selling wastewater treatment tanks made in India, and sales rose year on year in the recurring-revenue energy service company (ESCO) businesses in the area of water utilities.
In terms of income, the Company incurred higher construction outsourcing expenses stemming from large-scale projects related to electrical component factories, which resulted in losses of JPY23 million. As for other large-scale domestic projects, the Company forecast increases in construction material and construction outsourcing expenses and accordingly booked JPY345 million in provision for loss on construction contracts. Consequently, sales in the environmental equipment segment were JPY18,570 million (up 0.3% YoY), and segment income (operating income) was JPY1,068 million (down 23.4% YoY).

In the household equipment segment, the Company saw fewer medium-sized or large projects contribute to construction-related sales than in the fiscal year ended December 31, 2018, and sales of retail products through DIY stores were down due to lower sales to existing stores. Furthermore, in terms of residential equipment construction, the company did not benefit from large-scale store construction to the extent that it did in the preceding fiscal year. Consequently, sales in the household equipment segment were JPY14,642 million (down 7.4% YoY) and segment income (operating income) was JPY366 million (down 35.5% YoY).

In the renewable energy segment, sales of electricity from solar power generation rose significantly year on year as the Company steadily commenced electricity sales. Sales of biodiesel fuel also increased year on year. Meanwhile, the Company launched its wind generation business during the first six months of the period under review (January–June 2019). Sales in the renewable energy segment were JPY699 million (up 143.3% YoY), and segment income (operating profit) was JPY256 million (versus segment loss [operating loss] of JPY65 million in the fiscal year ended December 31, 2018).

In other segments, performance in the engineering business was strong compared based on year-on-year comparisons. Sales were flat year on year in the household drinking water business. Consequently, segment sales were JPY1,837 million (up 14.0% YoY), and segment income (operating income) was JPY152 million (up 56.6% YoY).

During the fiscal year ended December 31, 2019, the Company continued to construct new power generation equipment in the solar-generated electricity sales business, as it did during the previous fiscal year. Additionally, the Company took out loans and conducted a capital increase through third-party allocation. Consequently, non-current assets amounted to JPY11,001 million, up JPY2,728 million YoY.

For the fiscal year ending December 31, 2020, the Company forecasts consolidated net sales of JPY39,400 million (up 10.2% from the fiscal year ended December 31, 2019), JPY1,500 million in ordinary income (up 29.8%), and JPY900 million in profit attributable to owners of parent (up 15.0%).

Daiki Axis Co., Ltd. (4245, First Section, TSE; http://www.daiki-axis.com/english/)
"**Summary of Consolidated Financial Results for the Fiscal Year Ended December 31, 2019**" is available at http://www.daiki-axis.com/ir/info/index09.html

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Release Inquiries

Borderless IR Co., Ltd. http://b-ir.co.jp/english/main.php)
Sixth Floor, Toyo Building 1-2-10 Nihonbashi, Chuo-ku, Tokyo 103-0027 JAPAN
TEL: +81-3-4588-6706
PiC: Tooru Fukuda
Contact: http://b-ir.co.jp/english/contact.php

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