



BORDERLESS IR CO., LTD ANNOUNCES NEWSLETTER

DAIKI AXIS CO., LTD. (4245, TOKYO) OVERVIEW OF OPERATING
PERFORMANCE FOR THE FIRST SIX MONTHS ENDED JUNE 30, 2020

August 27, 2020—Tokyo

In the six months ended June 30, 2020, operating income, ordinary income, and quarterly net profit all increased substantially. Moving forward, the Company will respond to COVID-19 and strive to improve income across the board.

Summary of Results

The business environment surrounding the Company deteriorated during the six months ended June 30, 2020 due to the rapid global spread of the novel coronavirus pandemic (COVID-19). Meanwhile, the industry was also impacted by the spread of COVID-19 as restrictions on sales activities resulted in order booking delays. Accordingly, the Company has not yet determined its consolidated results forecast for the fiscal year ending December 31, 2020.

Net sales in the six months ended June 30, 2020 were JPY17,443 million (down 2.3% YoY), a slight year-on-year decline. However, the Company implemented broad-ranging efforts to improve income, resulting in gross profit of JPY3,792 million (up 13.8% YoY), operating income of JPY682 million (up 35.5% YoY), and ordinary income of JPY757 million (up 31.5% YoY). In terms of extraordinary gains and losses, the Company recorded a gain on sales of shares of subsidiaries, as well as impairment loss. The Company recorded an annual preferred dividend of 4.8% paid to holders of classified stock in consolidated subsidiary Sylphid Inc. during the three months ended March 31, 2020, which had an impact on profit attributable to non-controlling interests. Consequently, profit attributable to owners of parent amounted to JPY281 million (up 31.4% YoY) in the six months ended June 30, 2020. Operating income, ordinary income, and profit attributable to owners of parent all increased by over 30% year on year.

In the environmental equipment segment, sales of wastewater treatment systems were down year on year. The Company recorded a measurable amount of domestic sales from large-scale projects in the six months ended June 30, 2019 using the percentage-of-completion system for recognizing revenues. However, sales in the six months ended June 30, 2020 did not measure up to this amount, and overseas sales also suffered significant impact from a deteriorating business climate caused by the COVID-19 pandemic, which began proliferating in China before it spread to other regions. Sales in the recurring revenue energy service company (ESCO) business in the area of maintenance were strong but remained level year on year in the recurring-revenue ESCO business in the area of water due primarily to a decrease in customer water usage. Consequently, sales in the environmental equipment

segment were JPY8,653 million (down 9.1% YoY) while operating income was JPY584 million (up 19.4% YoY).

Sales and income increased in the household equipment-related business segment. Construction-related sales were impacted by product shipment delays that arose because many suppliers associated with these sales have component production sites in China, but the Company was able to deal with this impact by substituting alternative products. Sales were also strong when compared to the six months ended June 30, 2019 due to replacement demand for store equipment and other facilities. In terms of residential machinery construction, medium-sized or large projects were scarce, but corresponding sales were solid in comparison to the six months ended June 30, 2019 as the Company recorded sales from Fujiwara Reiki, which became a consolidated subsidiary in September 2019. Sales of retail products through DIY stores were impacted by lower sales to existing stores, and sales activities in the EC business, including field surveys targeting end users, were delayed due to the spread of the novel coronavirus pandemic. As a result, sales in the household equipment-related business segment were JPY7,379 million (up 4.5% YoY), and operating income was JPY266 million (up 31.0% YoY).

In the renewable energy segment, the Company began selling power from solar power facilities and sales grew substantially year on year. As of June 30, 2020, the Company was generating power at 127 plants, with only three more waiting to be launched. Meanwhile, sales in the biodiesel fuel and compact wind generation businesses were down year on year. Consequently, sales in the renewable energy segment were JPY445 million (up 46.2% YoY), and operating income was JPY182 million (up 70.0% YoY).

In other segments, sales in the engineering business fell year on year, despite the completion of large-scale projects during the six months ended June 30, 2020. This decline occurred because the Company recorded most of the sales associated with these large-scale projects during the fiscal year ended December 31, 2019 (due to its implementation of the percentage-of-completion method for revenue recognition) and progress on commensurately large projects during the six months ended June 30, 2020 was delayed. DAD Co., Ltd., which handles the Company's civil works operations, was transferred sold to another company with June 30, 2020 as the presumptive selling date. In the household drinking water business, sales were strong compared to the six months ended June 30, 2019. As a result, sales in other segments were JPY964 million (down 0.3% YoY) and operating income was JPY98 million (up 12.3% YoY).

In terms of financial status, the Company's liquid assets, non-current assets, and current liabilities declined due to the transfer of all shares in subsidiary DAD Co., Meanwhile, non-current liabilities increased as the Company issued green bonds (unsecured bonds available only to qualified institutional investors) with the goal of conducting capital investment in the business of selling power from solar power facilities and the compact wind generation business.

Daiki Axis Co., Ltd. (4245, First Section, TSE <http://www.daiki-axis.com/english/>)

“Summary of Consolidated Financial Results for the Six Months Ended June 30, 2020” is available here:

<http://www.daiki-axis.com/ir/info/index.html>

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