

BORDERLESS IR CO., LTD

ANNOUNCES NEWSLETTER

**DAIKI AXIS CO., LTD. (4245, TSE)
FINANCIAL RESULTS SUMMARY FOR THE SECOND QUARTER OF THE
FISCAL YEAR ENDING DECEMBER 31, 2022**

August 31, 2022 – Tokyo

Net sales and gross profit increase, material prices also see sharp rise; profit decrease due to up-front investments during the second quarter of the fiscal year which ends December 31st, 2022. Household equipment business transforms from stability to growth. Renewable energy business sees significant increase in sales and profit due to M&A.

Summary of Results

The overarching business climate that envelopes the company group during the current consolidated cumulative second quarter is one where measures to combat COVID-19 have been adopted across Japan, accompanied by the continuous transition to normal socioeconomic activities. On the other hand, a sharp rise in prices of various materials and delays in deliveries due to the extended lockdown in Shanghai and the increasing seriousness of the situation in Ukraine, which are still on going. Under these circumstances, the medium-term management plan set to be implemented by the fiscal year ending in December 2025, “PROTECT x CHANGE”, continues to drive forward.

More specifically, in the environmental equipment segment the company will promote business development overseas while expanding maintenance and energy service company (ESCO) business as a recurring revenue model. Meanwhile in the household equipment segment, a shift from a stable business to a growing business occurred by the launch of the EC business, the discovery of new commercial products, and other initiatives. In the renewable energy segment, the company will conduct initiatives aimed at achieving a recycling-oriented society, strengthening its capacity to secure stable profits, and devising high value-added businesses and products for conditions following the conclusion of the feed-in tariff (FIT) system's application. In terms of overall initiatives, the company will strengthen its internal organization to support the successful implementation of IT strategies and apply IT as a tool for improving productivity.

The hydrothermal treatment business of consolidated subsidiary DA INVENT Co., Ltd. was changed from the "Environmental Equipment" segment to the "Renewable Energy" segment, and accordingly, comparisons and analyses for the second quarter of the current fiscal year are based on the new classification.

Net sales for the current consolidated cumulative second quarter that ends on December 31, 2022 totaled 20,091 million yen (+5.1% Year-on-Year). Gross profit totaled 4,155 million yen (+3.7% Year-on-Year), operating profit totaled 530 million yen (-32.0% Year-on-Year), ordinary income totaled 703 million yen (-18.7% Year-on-Year), and net income attributable to the shareholders of the parent totaled 393 million yen (-10.6% Year-on-Year). This was due to the impact of an increase in expenses including: the implementation of base salary increase in April and preemptive hiring of personnel related to the construction underway on a new factory in India, increases in freight expenses due to soaring transportation costs, increases in traveling expenses due to the easing of various restrictions associated with COVID-19, amortization of goodwill resulting from the acquisition of two subsidiaries in the previous fiscal year. Furthermore, in anticipation of continued corporate growth, selling, general and administrative expenses totaled 3,624 million yen (+12.3% Year-on-Year) due to investments in measures associated with strengthening the organizational foundation particularly with a focus on human resource development and the promotion of measures to meet the criteria for maintaining a listing on the prime market.

In the environmental equipment segment, domestic sales of Johkasou/wastewater treatment systems declined significantly from the same period of the previous year, largely due to the progression status of large-scale construction projects. Overseas sales continue to be affected by the influence of the COVID-19 pandemic, but still see improvement as a result of the delivery of Johkasou systems to the JICA support project with Iraq. Sales generated by maintenance (a recurring-revenue business) are performing steadily as the Company promotes contract expansion. In regard to the Company's business of converting groundwater into drinking water, sales generated through ESCO agreements (a source of recurring-revenue) rose while sales stemming from maintenance operations also increased due to new contracts. Sales generated through non-ESCO groundwater treatment systems also increased due to growing customer needs. As a result, sales generated in the environmental equipment segment came to 10,497 million yen (+3.7% Year-on-Year), and segment profit (operating profit) amounted to 823 million yen (-11.2% Year-on-Year)

In the household equipment segment, sales for construction related companies declined due to saturation in demand for non-contact type products which had been in high demand the previous year because of the COVID-19 pandemic. Severe delays in product supply continue as a direct result of shipping restrictions placed on manufacturers in relation to the Shanghai lockdown that occurred in March. Sales of home center retail

products have also seen downturn due to the impact of supply disruptions caused by shipping restrictions on manufacturers. Housing facilities projects (construction) saw a large improvement in recorded sales because of the completion of construction for DCM group hardware storefronts during the second quarter. Due to the impact of the COVID-19 pandemic, there was a reluctance to make capital investments in agricultural greenhouses last year, but sales are in recovery and on the upswing.

As a result, sales generated in housing facilities have increased significantly compared to the same time period of the previous year. The impact of the acquisition of a new subsidiary in the last fiscal year has allowed for an upturn in sales regarding housing sash exteriors. Because of the lack of large projects with the HVACs, freezers, and refrigerators segment, a decrease in sales and profit occurred. This business has a high profit margin and as the result of that, it stands as a contributing factor of profit loss for the segment.

A website for the EC business was created in January of 2022, and official Instagram and Youtube accounts were launched to strengthen PR operations. The EC business consists of online orders for household equipment construction, the Company is building a nationwide EC business for home facility renovation under its own management in addition to collaborative work with the hardware store business group DCM. Along with sales being conducted towards the general consumer through the website, through other corporate cooperation we are continuing forward with proposals for employee benefits and welfare for their employees.

As a result, net sales for the household equipment business totaled 8,144 million yen (-0.7% Year-on-Year), and segment profit (operating profit) totaled 225 million yen (-23.1% Year-on-Year).

In the renewable energy segment, because of the impact of acquiring Sanei Ecohome Inc., in October of last year, there was a large increase in sales related to solar power generation and power sales operations. Furthermore, before said acquisition, sales in power and solar power generation were mainly conducted by renting store roof space from DCM Holdings Co., Ltd. and installing solar power generation equipment within this space and using this equipment to sell electricity under Japan's feed-in tariff (FIT) system. In addition to the subsidiary using its own facilities for FIT activities, it is capable of proposing, constructing, and maintaining solar power generation facilities, allowing for not only the sale of electricity through its own property, but also engage in sales of power generation facilities. Compared to the profit margin on the sale of electricity, which the company group has conventionally done using FIT, the profit margin on the sale of facilities is lower, resulting in a difference between the rate of change in sales and the rate of change in segment profit.

In compact wind generation for the current consolidated cumulative second quarter through joint participation with other companies for the Ministry of the Environment, Government of Japan's "Low Carbon Technology Research, Development and Demonstration Program" there is an upturn in sales figures. We successfully linked with an additional five sites during the quarter for power generation facilities generating compact wind power under FIT. Currently there are seventeen sites operational with plans to operate a total of seventy sites by 2025.

In the biodiesel fuel-related business, contracts associated with B5 light diesel oil, which can be used in the same ways as standard gas oil because it is 5% biodiesel fuel by volume, engaged in a strengthening of sales and an increase in number of contracts. Sales in this business increased compared with the same period of the previous year. The hydrothermal treatment business is currently conducting R&D with a view to establish new technologies, and strong gains and transitions can be seen.

As a result, net sales for the renewable energy business totaled 1,134 million yen (+142.5% Year-on-Year), and segment profit (operating profit) totaled 122 million yen (+60.0% Year-on-Year).

Performance in the household drinking water business saw a decline in bottled water contracts, but a rise in contractees for subscription based water servers occurred. Consequently, figures for other segment sales totaled to 315 million yen (-4.3% Year-on-Year) and segment profit (operating profit) totaled 20 million yen (-67.8% Year-on-Year).

Daiki Axis Co., Ltd. (4245, First Section, TSE) <https://www.daiki-axis.com/en/> "FINANCIAL RESULTS SUMMARY FOR THE SECOND QUARTER OF THE FISCAL YEAR ENDING DECEMBER 31, 2022" is available here:

→ <https://www.daiki-axis.com/ir/library/>

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