

Maezawa Kyuso Industries Co., Ltd.

6485

Tokyo Stock Exchange Standard Market

6-Aug.-2024

FISCO Ltd. Analyst

Hiroshi Okamoto



FISCO Ltd.

<https://www.fisco.co.jp>

■ Index

| | |
|--|-----------|
| ■ Summary | 01 |
| 1. Outline of results for FY3/24 | 01 |
| 2. FY3/25 forecasts | 01 |
| 3. Realizing sustainable management | 01 |
| ■ Company profile | 03 |
| 1. Company profile | 03 |
| 2. History | 03 |
| ■ Business overview | 05 |
| 1. Business overview | 05 |
| 2. Company's strengths | 06 |
| ■ Results trends | 07 |
| 1. Outline of results for FY3/24 | 07 |
| 2. Financial condition and business indicators | 10 |
| ■ Outlook | 12 |
| ■ Medium- to long-term growth strategy | 13 |
| 1. Chose to list on TSE Standard Market | 13 |
| 2. Realizing sustainable management | 13 |
| ■ Shareholder return policy | 15 |

Summary

Aiming for sustainable growth by increasing stable earnings in the mainstay water supply equipment business and by expanding into adjacent business areas

Maezawa Kyuso Industries Co., Ltd. <6485> (hereinafter, “the Company”) is a comprehensive manufacturer of water supply equipment headquartered in Tokyo’s Meguro Ward that engages in the manufacture and sale of products including corporation stops with saddles, stop valves, and pipe fittings. Its mission is to provide clean, safe, and good-tasting water. The Company has grown as a leading manufacturer of water supply equipment that brings valuable water to people’s lives and in recent years, it has expanded its business to include the manufacture and sale of indoor cold and hot water supply plumbing components and components for floor heating systems.

1. Outline of results for FY3/24

In the Company’s consolidated results for FY3/24, net sales increased by 3.2% YoY to ¥32,008mn, operating profit increased by 12.9% to ¥2,466mn, ordinary profit increased 14.6% to ¥2,598mn, and profit attributable to owners of parent increased 17.3% to ¥1,681mn. Although the number of new housing starts remained sluggish, down 7.0% YoY to 800,176, the effect of the sales price revision contributed for higher sales and profits, and net sales set a record high for the third consecutive fiscal year. On the profit front, the Company posted double-digit growth driven by the impact of price revisions in the water supply equipment segment despite the lack of volume effects.

2. FY3/25 forecasts

For the FY3/25 consolidated results, the Company is forecasting net sales to decrease 0.0% YoY to ¥32,000mn, operating profit to increase 4.6% to ¥2,580mn, ordinary profit to increase 5.1% to ¥2,730mn, and profit attributable to owners of parent to increase 5.9% to ¥1,780mn. The Company went ahead with sales price revisions of all products starting with April 2024 shipments to counteract the decline in profitability due to cost increases amid an uncertain outlook of declining housing demand and the price of copper (a major raw material) staying high. In addition, the Company aims to maintain profit growth by pushing ahead with initiatives such as making its business processes more efficient. The Company notes that the numerical targets of its Medium-term Management Plan 2024 are net sales of ¥30.5bn and operating profit of ¥2.6bn in FY3/25. The Company expects net sales to overshoot and operating profit to be more or less on target.

3. Realizing sustainable management

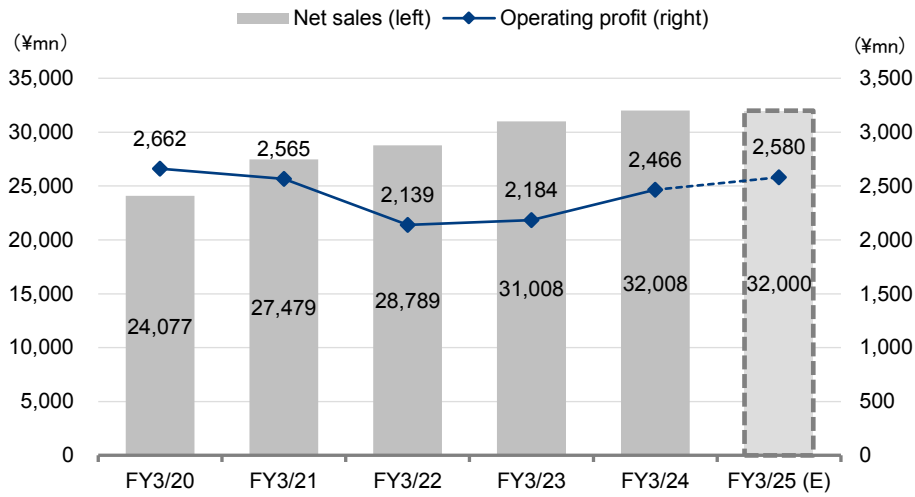
Under its sustainability policy, the Company has specified materialities to focus on as priorities with the goal of “a future of continuing to be needed by society at large by helping to realize a society where people can live safely and with peace of mind.”

Summary

Key Points

- A leading manufacturer of water supply equipment that is expanding its business by supporting the stable supply of water, an invaluable resource for daily life
- In FY3/24, net sales increased 3.2% and operating profit rose 12.9%; net sales set a new record high for the third consecutive year
- To continue passing cost increases onto sales prices in FY3/25, the Company forecasts operating profit growth by ensuring price increases filter through
- Under its sustainability policy, the Company aims for “a future of continuing to be needed by society at large by helping to realize a society where people can live safely and with peace of mind”

Results trends



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

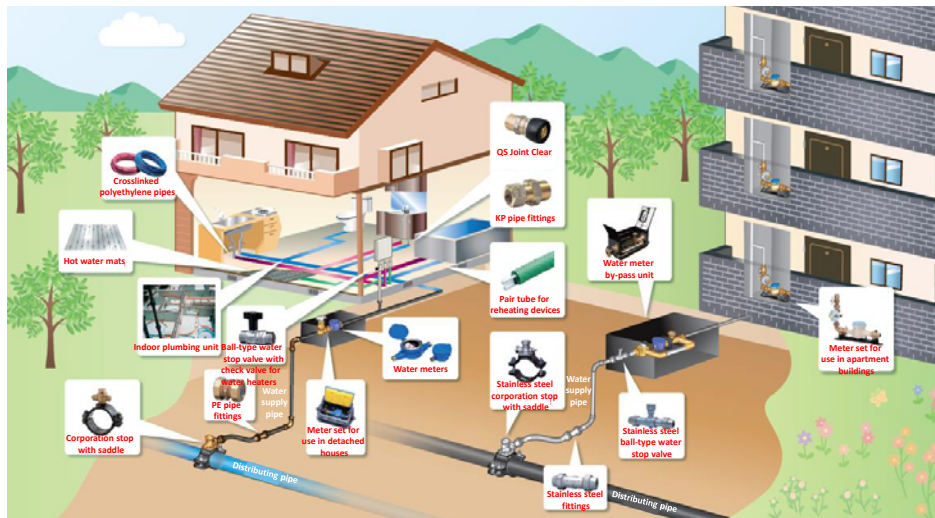
Company profile

A leading manufacturer of water supply equipment that is expanding its business by supporting the stable supply of water, an invaluable resource for daily life

1. Company profile

The Company is a comprehensive manufacturer of water supply equipment headquartered in Tokyo's Meguro Ward that engages in the manufacture and sale of products including corporation stops with saddles, stop valves, and pipe fittings. Based on its guiding principle of Quality, Safety & Originality (QSO), defined as "quality is personality, safety is cooperation, and originality is reform," and under its mission of providing clean, safe, and good-tasting water, the Company has grown as a leading manufacturer of water supply equipment that brings valuable water to people's lives. In recent years, it has expanded to the lifeline-related business including the manufacture and sale of indoor cold and hot water supply plumbing components and components for floor heating systems, and commenced sales of air conditioning products in an aim to become a company that supports comfortable living spaces. In FY3/24, it achieved net sales of ¥32,008mn, which set a new record high for the third consecutive fiscal year.

Example Applications of the Company's Products



Source: The Company's shareholder communications

2. History

Showa Seisakusyo Corporation (the Company's predecessor) was founded in Chuo Ward, Tokyo in 1937 by Keiji Maezawa and sold various machinery and fittings for water supply and sewage equipment. After World War II, it was reorganized and incorporated as Maezawa Valve Industries, Inc. (currently Maezawa Industries, Inc. <6489>). Subdividing the company's business in order to address growing demand for waterworks infrastructure, the Company and Maezawa Kasei Industries Co., Ltd. <7925> were subsequently split off, and the Company, which mainly handled water supply equipment for water and sewage terminals, was established as an independent company, Tokyo Suido Industries Co., Ltd., in 1957. Its name was subsequently changed to the current company name in 1965.

Company profile

Following this, the Company expanded nationwide by actively engaging in building plants and opening logistics centers and other functions. In 1991, it registered with the Japan Securities Dealers Association as an over-the-counter stock and then listed on the Tokyo Stock Exchange (TSE) Second Section in 1998, before moving to the First Section in 2005. In April 2022, it transferred to the TSE Prime Market following the restructuring of the exchange (and transferred to the Standard Market in October 2023). In the housing and construction equipment segment, which the Company positions as a growth driver, the Company acquired the floor heating business of Sumisho Metalex Corporation in March 2020 (Maezawa Living Solutions Co., Ltd.), which was subsequently merged with the Company in April 2023 to strengthen the earnings base by increasing efficiency within the Group.

History

| Date | Outline |
|----------------|--|
| 1937 | Founded as Showa Seisakusyo Corporation |
| January 1957 | Tokyo Suido Industries Co., Ltd. established in Meguro Ward, Tokyo |
| October 1965 | Name changed to Maezawa Kyuso Industries Co., Ltd. |
| October 1968 | Saitama Plant established in Satte (now Satte City), Kita-Katsushika District, Saitama Prefecture |
| April 1972 | Saitama Plant designated as a designated inspection plant by the Japan Water Works Association |
| October 1991 | Registered as an over-the-counter stock with the Japan Securities Dealers Association |
| March 1994 | Fukushima Plant established in Shirasawa (now Motomiya City), Adachi District, Fukushima Prefecture |
| March 1996 | An extension is added to the Fukushima Plant and manufacture of crosslinked polyethylene pipes begins |
| March 1997 | Toshin Shoji Co., Ltd. (now QSO INDUSTRIAL INC.) acquired and made into a consolidated subsidiary |
| November 1997 | Fukushima Plant acquires ISO 9001 international quality assurance standard |
| February 1998 | Listed on the TSE Second Section |
| July 1999 | Fukushima Plant acquires JIS quality assurance certification |
| June 2000 | Osaka Logistics Centre established in Osaka City, Osaka Prefecture, and Osaka Branch moved |
| July 2001 | Kyushu Logistics Centre established |
| January 2002 | ISO 14001 international environmental management standard acquired (Head Office, Tokyo Sales Office, Saitama Plant, and Fukushima Plant) Maezawa Kyuso (Nanchang) Co., Ltd. established (now a consolidated subsidiary) |
| March 2004 | Saitama Plant integrated into Fukushima Plant |
| September 2005 | Listing moved to the TSE First Section |
| September 2015 | Head Office moved to Meguro Ward, Tokyo |
| March 2020 | Maezawa Living Solutions Co., Ltd. made into a subsidiary |
| February 2021 | Established a voluntary Remuneration Committee as an advisory body to the Board of Directors |
| December 2021 | Established a Nominating Committee |
| April 2022 | Transferred to the TSE Prime Market following the restructuring of the exchange |
| April 2023 | Merged Maezawa Living Solutions Co., Ltd. |
| October 2023 | Transferred to the TSE Standard Market |

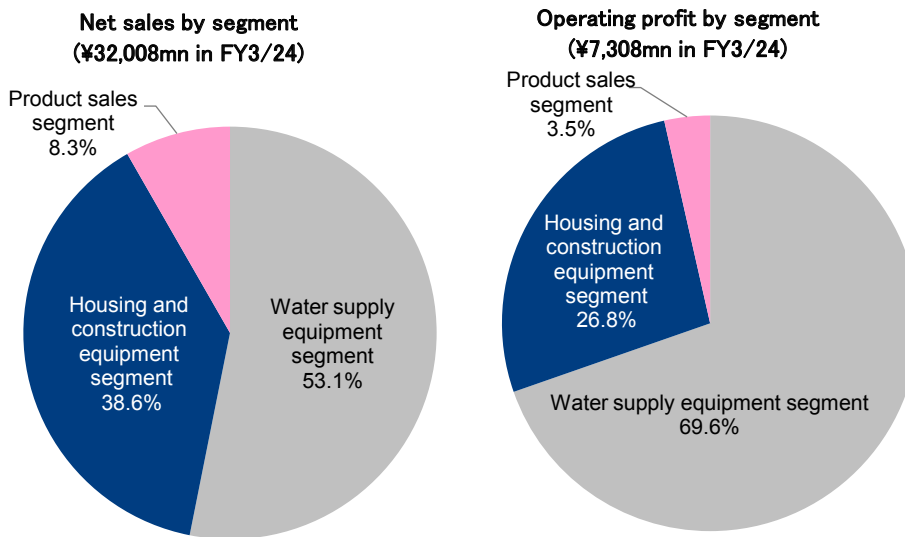
Source: Prepared by FISCO from the Company's securities report and press releases.

Business overview

Providing products that form a lifeline for people, from water supply equipment to indoor cold and hot water supply plumbing components and floor heating and air conditioning components. Strengths are ability to meet customers' needs and brand power built on relationships of trust with customers

1. Business overview

The Company is a leading manufacturer of water supply equipment, providing products that form a lifeline for people, from water supply equipment to indoor cold and hot water supply plumbing components and floor heating and air conditioning components. In terms of business segments, it comprises a water supply equipment segment (manufacture and sale of water supply equipment), a housing and construction equipment segment (manufacture and sale of housing equipment), and a product sales segment. In FY3/24 the water supply equipment segment had a 53.1% share of net sales and a 69.6% share of operating profit, the housing and construction equipment segment had shares of 38.6% and 26.8%, and the product sales segment had shares of 8.3% and 3.5%, so water supply equipment accounted for a majority for both sales and operating profit.



Note: Net sales are sales to external customers; operating profit is before adjustment
Source: Prepared by FISCO from the Company's financial results

Business overview

(1) Water supply equipment segment

The Company manufactures and sells corporation stops with saddles, stop valves, and various pipe fittings, which are water supply equipment used to draw water from water distribution pipes (water mains) laid in roads into houses. Regarding the market environment, the market has matured as water and sewage infrastructure development has run its course, and the number of new housing starts has been sluggish as the population has declined in recent years. However, there has been stable demand for upgrade products due to the aging of water distribution piping (water mains) laid during the period of high economic growth and for products with high earthquake-resistance for disaster preparedness. The Company's market share for its mainstay water supply equipment segment is at around 40%. The Company's competitors are Tabuchi Corp. of Osaka Prefecture and Nippo Valve Co., Ltd. of Nagano Prefecture, and together the three companies have a market share of 85%. Copper is the main material used in water supply equipment, but some municipalities use stainless steel products, whose makers include Kitz Corporation <6498>.

(2) Housing and construction equipment segment

Drawing on the sales base and manufacturing technologies of the water supply equipment segment, the Company has moved into the indoor plumbing field. In this segment, it manufactures and sells indoor cold and hot water supply plumbing components, floor heating components and plumbing systems that consolidate these components as units. In addition, sales increased sharply with the addition of Maezawa Living Solutions' floor heating business from FY3/21. It has also started selling products for air conditioning equipment as it works to expand into the market for non-residential properties. It expects business expansion going forward from such products as O2 cut pipe for large buildings, a product for air conditioning equipment.

(3) Product sales segment

The Company also sells purchased goods related to the above two business segments. Some of the goods it handles are from Group companies, including Maezawa Kasei Industries and Maezawa Industries, but the amounts are not large. It plays a supportive role for the other two businesses.

2. Company's strengths

The Company's strengths are 1) a wealth of exclusive expertise related to manufacturing, 2) a proprietary production management system, 3) brand power built on relationships of trust with water supply businesses, pipe material suppliers, and waterworks contractors across Japan, and 4) an ability to meet the needs of customers through a combination of production and sales.

(1) A wealth of exclusive expertise related to manufacturing

At its production sites, the Company uses an integrated in-house production system that manages quality control in-house from casting and processing to assembly, inspection and shipping to the molds used on the production lines. It has derived a wealth of exclusive expertise related to manufacturing from the experience and data accumulated through each of these processes over many years, and this enhances the competitiveness of the products it develops.

(2) A proprietary production management system

Although the performance required of water supply equipment can differ due to factors such as usage environment and usage conditions, the Company's products are used by water supply businesses throughout Japan, amounting to many thousands of units. In addition, the Company has established a unique production management system that combines a sales force capable of accurately forecasting demand with a flexible plant operation system that allows for high-mix, low-volume production that makes it able to stably supply products.

Business overview

(3) Brand power built on relationships of trust with water supply businesses, pipe material suppliers, and waterworks contractors across Japan

To date, the Company has developed water supply equipment that pursues safety, convenience, and workability and it has consistently provided a stable supply of required products, winning it a reputation for reliability among stakeholders in the water supply industry. This brand power built on strong relationships of trust has become an important foundation of the Company's business.

(4) An ability to meet the needs of customers through a combination of production and sales

The Company has established 26 business locations and 2 sales departments across Japan providing a network that enables it to accurately identify the needs of customers and respond promptly, from product development through to manufacture and supply. In the water supply equipment segment, it has acquired the top market share in multiple regions.

Results trends

In FY3/24, net sales increased 3.2% and operating profit rose 12.9%. Record-high net sales three years in a row thanks to sales price revision effect despite weak new housing starts

1. Outline of results for FY3/24

In the Company's consolidated results for FY3/24, net sales increased by 3.2% YoY to ¥32,008mn, operating profit increased by 12.9% to ¥2,466mn, ordinary profit increased 14.6% to ¥2,598mn, and profit attributable to owners of parent increased 17.3% to ¥1,681mn. Although the number of new housing starts remained sluggish, down 7.0% YoY to 800,176, the lowest level since fiscal 2010 in the wake of the global financial crisis, but the effect of the sales price revision contributed to higher sales and profits, and net sales set a record high for the third consecutive fiscal year.

Operating profit increased, driven by the effect of price revisions in the water supply equipment segment in spite of the lack of volume effects amid weak new housing starts and the impact of surging raw materials prices, in addition to Companywide expenses of ¥4,842mn, which was an increase of ¥472mn YoY.

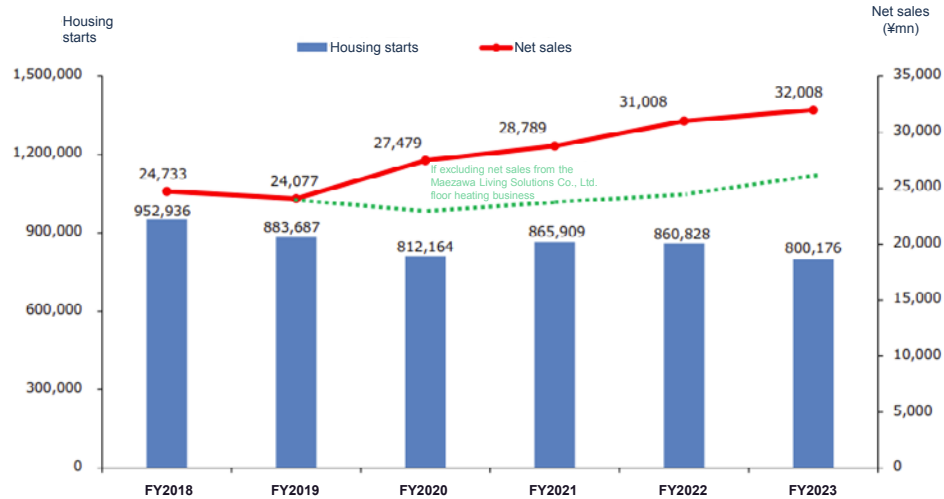
Consolidated results for FY3/24

| | FY3/22 | | FY3/23 | | FY3/24 | | YoY |
|---|---------|------------|---------|------------|---------|------------|-------|
| | Results | % of total | Results | % of total | Results | % of total | |
| Net sales | 28,789 | 100.0% | 31,008 | 100.0% | 32,008 | 100.0% | 3.2% |
| Gross profit | 8,223 | 28.6% | 8,605 | 27.8% | 9,340 | 29.2% | 8.5% |
| SG&A expenses | 6,083 | 21.1% | 6,421 | 20.7% | 6,873 | 21.5% | 7.0% |
| Operating profit | 2,139 | 7.4% | 2,184 | 7.0% | 2,466 | 7.7% | 12.9% |
| Ordinary profit | 2,287 | 7.9% | 2,267 | 7.3% | 2,598 | 8.1% | 14.6% |
| Profit attributable to owners of parent | 1,498 | 5.2% | 1,433 | 4.6% | 1,681 | 5.3% | 17.3% |

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

Results trends

Trends in net sales and the number of new housing starts



Source: The Company's financial statement briefing materials

(1) Water supply equipment segment

Net sales for the segment rose 4.6% YoY to ¥17,006mn while segment operating profit edged up 17.5% to ¥5,090mn. The number of new housing starts was sluggish, but the Company continued to make shipments for water distribution pipe replacement work, supported in part by firm demand for such work. The Company also focused on sales activities that proposed products with exceptional earthquake-resistance and workability and made price revisions, resulting in increased sales. By region, sales increased in every region except Hokkaido. Profit increased due to the price revision effect and earnings improvement despite the price of copper (a major raw material) staying high.

(2) Housing and construction equipment segment

Results for the segment were little changed YoY. Net sales for the segment rose 0.6% YoY to ¥12,350mn while segment operating profit declined 1.5% to ¥1,959mn. Net sales increased marginally because of the price revision effect and a concentration of deliveries of water supply and hot water supply plumbing components for condominiums despite weak new housing starts. The Company kept the rate of profit decline to a minimum by reviewing sales of less profitable items and revising sales prices. We at FISCO assume that integration effects with Maezawa Living Solutions following the merger in FY3/24 have also helped to streamline earnings, because the Company is no longer recording internal sales (sales between segments).

(3) Product sales segment

Net sales for the segment rose 6.7% YoY to ¥2,651mn and segment operating profit increased 12.0% to ¥259mn. Increased sales of cast iron products were a contributing factor.

Results trends

FY3/24 results by segment

| | FY3/22 | | FY3/23 | | FY3/24 | | YoY | |
|--|---------|------------|---------|------------|---------|------------|--------|----------|
| | Results | % of total | Results | % of total | Results | % of total | Change | Change % |
| Net sales | 28,789 | 100.0% | 31,008 | 100.0% | 32,008 | 100.0% | 1,000 | 3.2% |
| Water supply equipment segment | 15,453 | 53.7% | 16,250 | 52.4% | 17,006 | 53.1% | 755 | 4.6% |
| Housing and construction equipment segment | 10,882 | 37.8% | 12,273 | 39.6% | 12,350 | 38.6% | 77 | 0.6% |
| Product sales segment | 2,452 | 8.5% | 2,484 | 8.0% | 2,651 | 8.3% | 167 | 6.7% |
| Operating profit | 2,139 | 7.4% | 2,184 | 7.0% | 2,466 | 7.7% | 282 | 12.9% |
| Water supply equipment segment | 4,258 | 27.6% | 4,331 | 26.7% | 5,090 | 29.9% | 758 | 17.5% |
| Housing and construction equipment segment | 1,825 | 16.8% | 1,990 | 16.2% | 1,959 | 15.9% | -30 | -1.5% |
| Product sales segment | 241 | 9.8% | 231 | 9.3% | 259 | 9.8% | 27 | 12.0% |
| Adjustment | -4,185 | - | -4,369 | - | -4,842 | - | -472 | - |

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

(4) Sales trends by region

Looking at net sales by business location, the Kanto, Chubu, and Kinki regions account for 72.6% of the total. Sales increased YoY in all regions except Hokkaido in FY3/24. In the water supply equipment segment, sales increased at above-average rates of 8.2% YoY in Chubu and 7.9% in Kinki. In the housing and construction equipment segment, the Kanto and Kinki regions have a large sales share (72.0% in total), because the Company has a floor heating business associated with TOKYO GAS CO., LTD <9531> and Osaka Gas Co., Ltd. <9532>. Net sales for the segment were flat YoY.

Results trends

Sales trends by region

| | FY3/22 | FY3/22 | FY3/22 | Change % | Composition ratio |
|---|--------|--------|--------|----------|-------------------|
| (¥mn) | | | | | |
| Sales by region | | | | | |
| Net sales | 28,789 | 31,008 | 32,008 | 3.2% | 100.0% |
| Hokkaido | 1,570 | 1,615 | 1,572 | -2.7% | 4.9% |
| Tohoku | 2,602 | 2,701 | 2,894 | 7.1% | 9.0% |
| Kanto | 12,943 | 14,480 | 14,896 | 2.9% | 46.5% |
| Chubu | 3,851 | 3,993 | 4,242 | 6.2% | 13.3% |
| Kinki | 3,731 | 3,946 | 4,086 | 3.5% | 12.8% |
| Chugoku/Shikoku | 2,084 | 2,088 | 2,120 | 1.5% | 6.6% |
| Kyushu | 2,006 | 2,181 | 2,197 | 0.7% | 6.9% |
| Water supply equipment segment | | | | | |
| Net sales | 15,453 | 16,250 | 17,006 | 4.6% | 100.0% |
| Hokkaido | 649 | 628 | 618 | -1.6% | 3.6% |
| Tohoku | 1,552 | 1,597 | 1,654 | 3.6% | 9.7% |
| Kanto | 6,402 | 6,848 | 7,072 | 3.3% | 41.6% |
| Chubu | 2,481 | 2,591 | 2,804 | 8.2% | 16.5% |
| Kinki | 1,657 | 1,756 | 1,895 | 7.9% | 11.1% |
| Chugoku/Shikoku | 1,475 | 1,492 | 1,556 | 4.3% | 9.1% |
| Kyushu | 1,235 | 1,335 | 1,403 | 5.1% | 8.3% |
| Housing and construction equipment segment | | | | | |
| Net sales | 10,882 | 12,273 | 12,350 | 0.6% | 100.0% |
| Hokkaido | 696 | 764 | 741 | -3.0% | 6.0% |
| Tohoku | 698 | 679 | 770 | 13.4% | 6.2% |
| Kanto | 5,570 | 6,675 | 6,751 | 1.1% | 54.7% |
| Chubu | 903 | 903 | 891 | -1.3% | 7.2% |
| Kinki | 2,013 | 2,138 | 2,135 | -0.1% | 17.3% |
| Chugoku/Shikoku | 364 | 376 | 368 | -2.1% | 3.0% |
| Kyushu | 637 | 735 | 691 | -6.0% | 5.6% |
| Product sales segment | | | | | |
| Net sales | 2,452 | 2,484 | 2,651 | 6.7% | 100.0% |
| Hokkaido | 224 | 221 | 212 | -4.1% | 8.0% |
| Tohoku | 352 | 424 | 469 | 10.6% | 17.7% |
| Kanto | 970 | 956 | 1,072 | 12.1% | 40.4% |
| Chubu | 466 | 498 | 545 | 9.4% | 20.6% |
| Kinki | 60 | 51 | 54 | 5.9% | 2.0% |
| Chugoku/Shikoku | 244 | 220 | 194 | -11.8% | 7.3% |
| Kyushu | 133 | 111 | 102 | -8.1% | 3.8% |

Source: Prepared by FISCO from the Company's securities reports

2. Financial condition and business indicators

Total assets as of the end of FY3/24 were ¥45,965mn, an increase of ¥1,321mn from the end of FY3/23. Current assets increased ¥30mn to ¥30,706mn. The main factors behind this were an increase of ¥908mn in electronically recorded monetary claims – operating, due to higher sales, which offset the decreases of ¥390mn in cash and deposits and ¥400mn in securities following bond redemption. The equity ratio was 84.9% (85.6% at the end of FY3/23), and the current ratio was 537.6% (547.6%), so a high level continues to be maintained.

Results trends

Looking at consolidated cash flows at the end of FY3/24, net cash provided by operating activities was ¥2,060mn. This was primarily attributable to an increase in trade payables of ¥1,765mn and a decrease in inventories of ¥1,314mn. Net cash used in investing activities was ¥273mn due to purchase of intangible assets of ¥401mn and other factors. As a result, free cash flow turned from negative to positive, to ¥1,786mn. Cash and cash equivalents at the end of FY3/24 was ¥10,486mn, down ¥11mn YoY, but an ample amount was maintained.

Consolidated balance sheet and business indicators

| | (¥mn) | | |
|--------------------------------|---------------|---------------|--------|
| | End of FY3/23 | End of FY3/24 | Change |
| Current assets | 30,675 | 30,706 | 30 |
| Non-current assets | 13,967 | 15,258 | 1,290 |
| Total assets | 44,643 | 45,965 | 1,321 |
| Current liabilities | 5,602 | 5,712 | 110 |
| Non-current liabilities | 816 | 1,213 | 396 |
| Total liabilities | 6,418 | 6,925 | 507 |
| Total net assets | 38,225 | 39,039 | 814 |
| (Stability) | | | |
| Current ratio | 547.6% | 537.6% | -1.0pt |
| Equity ratio | 85.6% | 84.9% | -0.7pt |

Source: Prepared by FISCO from the Company's financial results, financial statement briefing materials and Fact Book

Consolidated cash flow statement

| | (¥mn) | |
|--|--------|--------|
| | FY3/23 | FY3/24 |
| Cash and cash equivalents at beginning of period | 13,546 | 10,498 |
| Cash flows from operating activities | -1,272 | 2,060 |
| Cash flows from investing activities | -731 | -273 |
| Cash flows from financing activities | -982 | -1,783 |
| Cash and cash equivalents at the end of the period | 10,498 | 10,486 |
| Free cash flow | -2,003 | 1,786 |
| | FY3/23 | FY3/24 |
| Capital investment | 1,124 | 637 |
| Depreciation | 631 | 672 |
| R&D expenses | 280 | 311 |

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

■ Outlook

The Company forecasts 4.6% YoY operating profit growth in FY3/25 by continuing to pass cost increases onto sales prices and ensuring price increases filter through

For the FY3/25 consolidated results, the Company is forecasting net sales to decrease 0.0% YoY to ¥32,000mn, operating profit to increase 4.6% to ¥2,580mn, ordinary profit to increase 5.1% to ¥2,730mn, and profit attributable to owners of parent to increase 5.9% to ¥1,780mn.

The Company commented that housing demand is on a downward trend, assuming new housing starts in fiscal 2024 to drop below 800,000 units and expecting unstable conditions to continue amid ongoing economic uncertainty. Copper prices also remain high, raising concerns for cost increases. Given these circumstances, the Company went ahead with its third price increase for all products since the COVID-19 pandemic starting with April 2024 shipments, to counteract the decline in profitability due to cost increases. The rate of increase is 15% or more for water supply equipment (excluding some products), 12% or more for construction equipment, and 15% or more for heating systems. The Company plan calls for profit growth by ensuring cost increases are passed onto sales prices and price increases filter through on the assumption that there will continue to be no volume effects.

FY3/25 is the final year of Medium-term Management Plan 2024, which was formulated in May 2022. The three basic policies of the plan are 1) advance business portfolio management, 2) realize sustainable management, and 3) strengthen efforts to ensure shareholders benefit from profits. As for numerical targets, in FY3/25 it aims to achieve net sales of ¥30.5bn, operating profit of ¥2.6bn, an operating margin of 8.5%, and ROE of at least 5%. Net sales and operating profit have been trending ahead of target since FY3/23, but in FY3/25, the Company expects net sales to overshoot and operating profit to be more or less on target.

Looking at forecasts by segment, the Company looks for net sales to increase 2.5% YoY to ¥17,430mn in the water supply equipment segment, decline 0.5% to ¥12,290mn in the housing and construction equipment segment, and decrease 14.0% to ¥2,280mn in the product sales segment. The water supply equipment segment will ensure it passes cost increases onto sales prices to secure profit, because copper prices remain high at a time when new housing starts are weak. The housing and construction equipment segment aims to ensure it captures demand. In April 2024, the Company brought subsidiary QSO Industrial's hot and cold water supply plumbing systems business (excluding construction-related work) in-house to streamline its business.

The outlook for the operating environment remains uncertain amid ongoing yen depreciation, copper prices remaining high, and weak housing demand. Under these conditions, new housing starts increased 13.9% YoY in April 2024, but most of these are rental houses. New housing starts for owner-occupied houses continued to decline, down 3.9% in April 2024. We at FISCO therefore believe that the third round of price increases filtering through and further business efficiency improvements hold the key to achieving medium-term plan targets.

Outlook

Consolidated outlook for FY3/25

| | FY3/24 | | FY3/25 | | YoY | |
|--|---------|----------------|----------|----------------|--------|----------|
| | Results | % of net sales | Forecast | % of net sales | Change | % change |
| Net sales | 32,008 | 100.0% | 32,000 | 100.0% | -8 | -0.0% |
| Water supply equipment segment | 17,006 | 53.1% | 17,430 | 54.5% | 424 | 2.5% |
| Housing and construction equipment segment | 12,350 | 38.6% | 12,290 | 38.4% | -60 | -0.5% |
| Product sales segment | 2,651 | 8.3% | 2,280 | 7.1% | -371 | -14.0% |
| Operating profit | 2,466 | 7.7% | 2,580 | 8.1% | 114 | 4.6% |
| Ordinary profit | 2,598 | 8.1% | 2,730 | 8.5% | 132 | 5.1% |
| Profit attributable to owners of parent | 1,681 | 5.3% | 1,780 | 5.6% | 99 | 5.9% |

(¥mn)

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

Medium- to long-term growth strategy

“A future of continuing to be needed by society at large by helping to realize a society where people can live safely and with peace of mind”

1. Chose to list on TSE Standard Market

In April 2022, the Company chose to transfer to the TSE Prime Market from the TSE First Section following the restructuring of the exchange and in May 2022, formulated Medium-term Management Plan 2024, with FY3/25 as the final year. However, the Company transferred to the TSE Standard Market in October 2023 after a comprehensive review of its compliance with criteria for maintaining its Prime Market listing and its operating environment, because although it fulfilled the criteria for maintaining its Prime Market listing, it had an ongoing risk of being delisted by failing to meet the criteria for market capitalization of tradable shares and average daily trading value. It selected the Standard Market in light of the scale and scope of its business (now and in the medium term), concluding that it was more compatible with the concept of the Standard Market, although it has expanded as a water supply equipment manufacturer into indoor plumbing and other areas on the strength of its mainstay water infrastructure business. The Company seeks to achieve sustained growth and increase corporate value in the medium- to long-term by providing an environment where its shareholders can hold and trade its shares with confidence and divert the financial burden required for maintaining its listing on the Prime Market to focusing on growth its main business. On this point, we at FISCO are positive on the outlook for the Company exceeding its medium-term plan target for net sales and be close to attaining its operating profit target, which is a reflection of solid performance despite an uncertain market environment.

2. Realizing sustainable management

Under its sustainability policy, the Company has specified materialities to focus on as priorities with the goal of “a future of continuing to be needed by society at large by helping to realize a society where people can live safely and with peace of mind.” The four materialities are contributing to sustainable water infrastructure; promoting the use of renewable energy, active utilization of recycled materials, and development of environment-friendly products; securing human resources to support medium- to long-term growth; and strengthening governance and compliance.

Maezawa Kyuso Industries Co., Ltd.
6485 Tokyo Stock Exchange Standard Market

6-Aug.-2024
<https://www.qso.co.jp/ir.html>

Medium- to long-term growth strategy

We at FISCO see contributing to sustainable water infrastructure as the most important of the four materialities. As a specific initiative, in the water supply equipment segment, the Company aims to ensure it captures the projected solid demand associated with the replacement of aging pipelines to achieve stable earnings growth and fulfill needs for earthquake-resistant products to prepare for earthquake disasters for stable growth mainly of water distribution pipes.

According to the Ministry of Health, Labour and Welfare's "Recent trends in water works administration" (March 2023), spending nationwide on upgrading and repairing waterworks equipment is estimated to be around ¥1,300bn on average per year over the past 10 years. Compared to this, spending in the future on simple upgrades alone, primarily to replace aging equipment, is estimated at ¥1,800bn on average. Moreover, of this, pipelines account for over 70% of the market, so the Company believes the market will continue to see stable demand. A large amount of funds has been committed to address aging pipelines and earthquake-proofing continues to make progress, but in actuality, upgrading has tended to lag behind.

Water pipelines have a statutory useful life of 40 years, and while upgrading is being conducted on facilities originally built during the period of high economic growth, investment in upgrading is insufficient, the percentage of aging pipelines is increasing, and the percentage of pipelines that are upgraded is decreasing year by year. Considering the recent spate of heavy rainfall caused by climate change and water lines rupturing, countermeasures are urgently needed. Although water line rupturing is directly attributable to earthquakes, the aging of water pipes and inadequate earthquake resistance are also issues that need to be addressed. There is likely to be increasing demand for a higher earthquake-proof compliance rate. The government is promoting measures to strengthen disaster resilience of the water supply based on the Five-year Acceleration Plan for Disaster Prevention, Disaster Mitigation, and Building National Resilience. This will mean that the percentage of water distribution pipes (supplied by the Company) compliant with earthquake-resistance standards will continue to increase.

In response to this situation, the Company has steadily expanded net sales by developing products that meet customers' needs and disaster-resilient products with high added value. Specifically, it supplies earthquake-resistant pipe fittings and pipe fittings more resistant to ground movement, and products that accommodate downsizing for areas with a declining population and associated decrease in water supply volume.

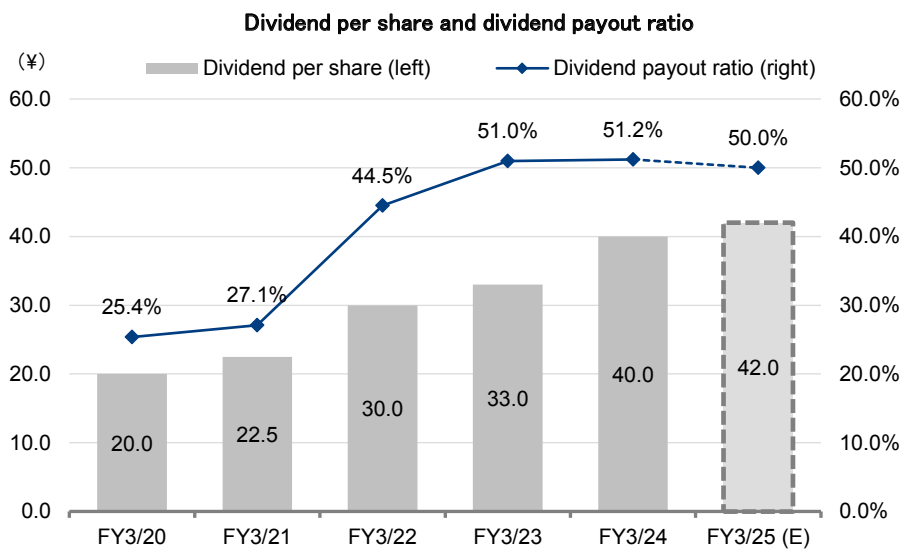
In Kanto, the region with the largest share of the Company's sales, the Tokyo Metropolitan Government began using stainless steel pipe, which has excellent anti-corrosion properties and earthquake-resistance, for water supply branch pipes, and by the end of fiscal 2002 it completed replacing the lead water supply pipes in public roads with stainless steel pipes. Replacing lead water supply pipes with stainless steel pipes resulted in a sharp decrease in the leakage rate. Measures to prevent water leaks also contribute toward counteracting global warming, utilizing precious water resources effectively, and reduction of CO₂ emissions by saving energy used to supply water (water intake, cleaning, and distribution). The government is therefore planning to use stainless steel for all water supply equipment materials used in roads as a way of permanently preventing corrosion. The Company has a lineup of stainless steel products from water pipe flow branches to first stop valves and connectors for meter stop valves, and at FISCO, we expect orders to increase in the Tokyo area.

Shareholder return policy

In FY3/24, increased dividend per share by ¥7.0 YoY to ¥40.0; plans increase of ¥2.0 to ¥42.0 in FY3/25. Intends to continue share buybacks

The Company’s policy is to return profits to shareholders and contribute to diverse shareholders through business growth and performance improvement. Under its Medium-term Management Plan 2024, it targets a consolidated dividend payout ratio of 50% and also flexibly buys back shares with consideration given to stability and continuity.

In FY3/24, the Company increased its per-share dividend by ¥7.0 YoY to pay an annual dividend of ¥40.0. The initial plan called for an increase of ¥3.0 in 1H to bring the annual total to ¥36.0 for a dividend payout ratio of 50.1%. However, FISCO surmises that the Company also increased the period-end dividend by ¥4.0 to ¥22.0 for a dividend payout ratio of 51.2%. In FY3/25, the Company is expecting to increase the dividend by ¥2.0 to ¥42.0 for a dividend payout ratio of 50.0%.

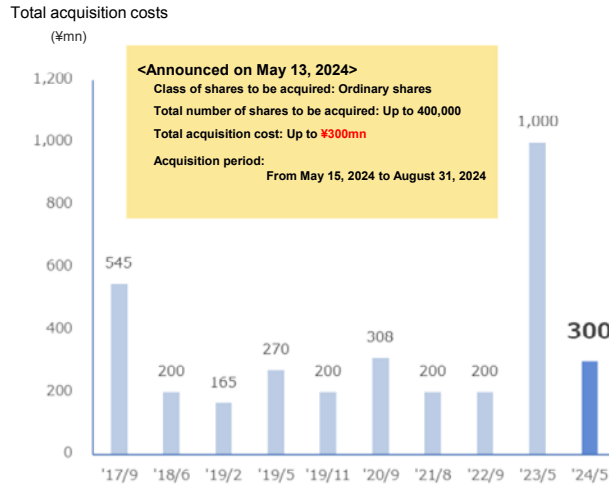


Note: Values have been retroactively adjusted to reflect a 1-to-2 stock split conducted on April 1, 2021.
Source: Prepared by FISCO from the Company's financial results

With regard to buying back shares, it acquired 821,800 shares with an acquisition cost of ¥999mn between May and November 2023. In May 2024, it announced it would be buying back up to 400,000 shares (1.89% of total shares outstanding, excluding treasury stock) for an acquisition cost of ¥300mn between May 15 and August 31, 2024. As of May 31, 2024, it had bought back 62,000 shares with an acquisition cost of ¥85mn.

Shareholder return policy

Recent share buyback trends



Source: Reprinted from the Company's financial statement briefing materials

The Company provides a shareholder benefit scheme to increase the appeal of investing in the Company to shareholders. It changed the program in December 2023, presenting Eraberu e-GIFT* according to the number of shares held to shareholders who have consecutively held the shares for a year or longer.

* Eraberu ("choose your own") e-GIFT is a digital gift service provided by ALL NIPPON AIRWAYS TRADING CO., LTD.

Change in shareholder benefit scheme

【Shareholder benefits before change】

| Shares held | Length of continuous holding | Benefit | Delivery period |
|-------------|------------------------------|--|----------------------------------|
| 100+ | N/A | ¥1,000 QUO Card | Scheduled for June each year |
| 200-1,999 | At least one year | 3 kg of new Koshihikari rice from Uonuma, Niigata Prefecture | Scheduled for November each year |
| 2,000 + | At least one year | 5 kg of new Koshihikari rice from Uonuma, Niigata Prefecture | |

【Shareholder benefits after change】

| Shares held | Length of continuous holding | Benefit | Delivery period |
|-------------|------------------------------|------------------------------|------------------------------|
| 200-1,999 | At least one year | Eraberu e-GIFT worth ¥3,000 | Scheduled for June each year |
| 2,000 + | At least one year | Eraberu e-GIFT worth ¥10,000 | Scheduled for June each year |

Note: Length of continuous holding of at least one year as of March 31 (date of record) refers to the shareholder number being entered into the shareholder register at least three consecutive times as of March 31 and September 30 each year.
 Source: Reprinted from the Company's financial statement briefing materials



Disclaimer

FISCO Ltd. ("FISCO") offers stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiries, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp