

2nd Quarter of the Fiscal Year Ending March 2024 Financial Results Materials



daiwabo

Daiwabo Holdings Co., Ltd.

November 9, 2023

(Stock code: **3107**)

<https://www.daiwabo-holdings.com/>



I am Nishimura from Daiwabo Holdings. I would like to explain the financial results for the 2nd quarter of the fiscal year ending Mar 2024.

- 1. Settlement of Accounts for the 2nd Quarter of the Fiscal Year Ending March 2024**
- 2. Business Outlook for the Full Term of the Fiscal Year Ending March 2024**
- 3. State of Key Considerations for the Formulation of the Next Medium-Term Management Plan**




[References]

- ▶ Application of the Accounting Standard for Revenue Recognition
- ▶ Corporate Profile
- ▶ Charts for Performance Trend

This is the flow of today's explanation.

Daiwabo Holdings Co., Ltd.



Head Office	Nakanoshima Festival Tower West, 3-2-4 Nakanoshima, Kita-ku, Osaka 530-0005	
Established	Established as Daiwa Boseki	April 1, 1941
	Establishment of Daiwabo Holdings Co., Ltd. July 1, 2009	
Consolidated employees	5,432 (As of March 31, 2023)	
Capital	¥21,696,744,900	
Stock exchange listing	Listed on the Prime Market of the Tokyo Stock Exchange Stock code: 3107 / Industry: Wholesale < Constituent stock of the JPX Nikkei Index 400 >	
Business profile	IT Infrastructure Distribution Business	Sales of computers, peripherals and software, and logistics services
	[Core company]  <i>Daiwabo Information System Co., Ltd.</i>	Installation and maintenance of and repair services for computer equipment
	Fiber Business	Manufacture and sales of fiber materials for hygienic materials, non-woven fabrics, industrial materials, textiles for apparel and living products and finished products
	[Core company]  <i>Daiwabo Co., Ltd.</i>	
	Industrial Machinery Business	Manufacture and sales of machine tools, automatic machinery and casting products
	[Core company]  <i>O-M Ltd.</i>	
	Other Businesses	Insurance Agency Business, Engineering Business

This is an overview of our company. The group consists of 3 businesses. Since Daiwabo Information System, a trading company specializing in IT-Related equipment, accounts for about 90% of our sales, our business category is “Wholesale” on the Tokyo Stock Exchange Prime Market.

Settlement of Accounts for the 2nd Quarter of the Fiscal Year Ending March 2024

Now, I'd like to report the settlement of accounts for the 2nd quarter of the fiscal year ending Mar 2024.

2nd Quarter of the Fiscal Year Ending March 2024 (April 1, 2023 - September 30, 2023)

Acquired demand stably in IT Infrastructure Distribution Business and both sales and profit increased
2nd-largest first-half net sales ever

**IT Infrastructure
Distribution Business**

We acquired medium to large-sized IT investment projects centered on companies and government offices based on smooth communication with partners due to being community-based and exceeded the results for the previous fiscal year.
Sales of subscription products through iKAZUCHI also remained strong.
In the consumer market, sales decreased due to the stagnation of personal spending, but profit increased due to improved profitability.

Fiber Business

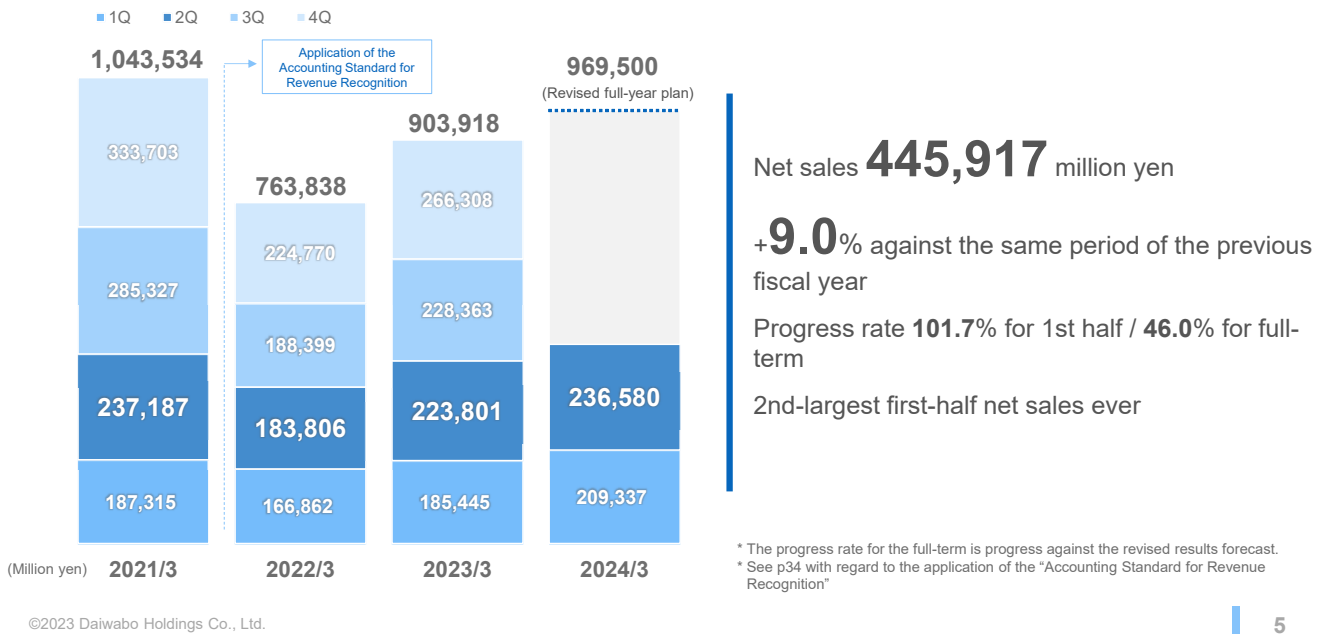
Non-woven fabric products remained steady and functional rayon was strong, but due to a delay in the recovery in demand for cartridge filters for the electronic parts industry and the impact of high raw material and fuel prices in business overall, we struggled in terms of profits.

**Industrial Machinery
Business**

Sales to the energy industry, where there is demand for high-efficiency turbines, were strong, resulting in increased sales and profits, and demand in the aircraft industry was on a recovery trend.

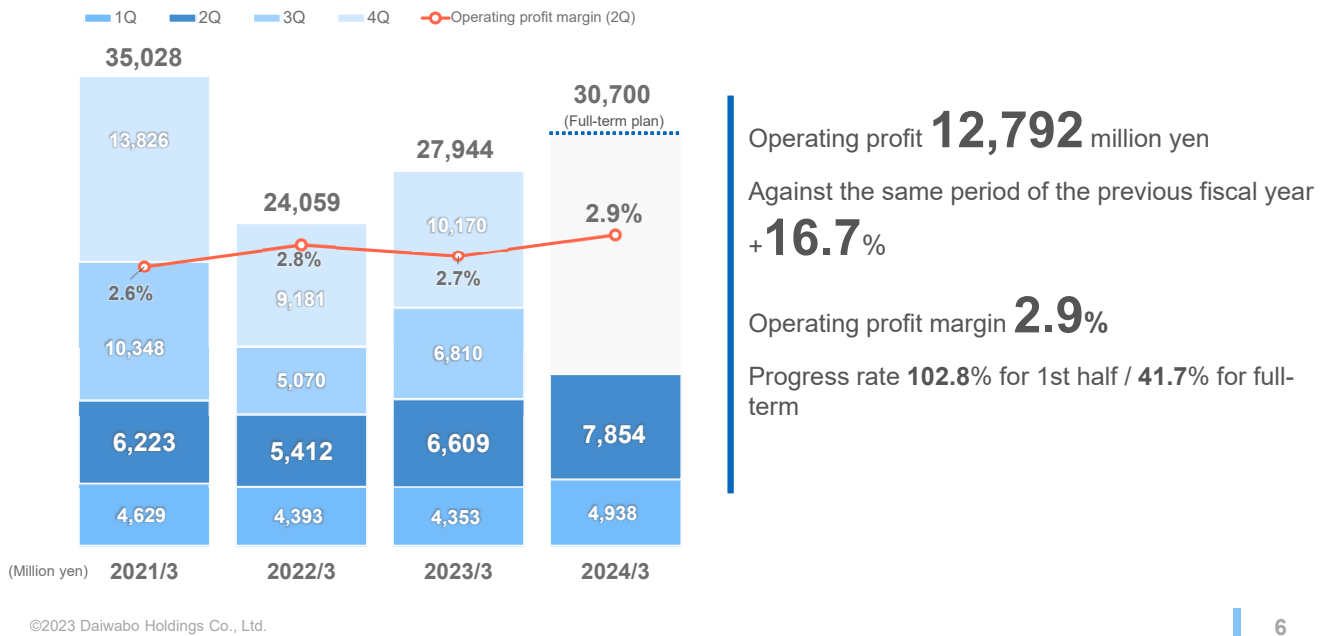
During this quarter, our mainstay IT infrastructure distribution business achieved stable demand mainly from companies and government agencies, resulting in significant increases in sales and profits. I will explain the status of each biz later.

Cumulative Net Sales for the 2nd Quarter of the Fiscal Year Ending March 2024



This is the trend in consolidated sales. 2nd quarter sales were 445.9 b yen, yoy increase by 9.0% and 1.7% increase against the results forecast. This was the 2nd-highest 1H result after the fiscal year ended Mar 2020, which had seen demand hike due to Windows update and consumption tax hike.

Cumulative Operating Profit for the 2nd Quarter of the Fiscal Year Ending March 2024



Next is the trend of operating profit. In the 2nd quarter, profit was 12.7 billion yen, yoy increase of 16.7% and 2.8% increase against the 1H results forecast.

Summary of the Consolidated Settlement of Accounts for the Cumulative 2nd Quarter of the Fiscal Year Ending March 2024



(Million yen)	2023/3 2Q	2024/3 2Q	Change	Compared to previous term	Revised full-year forecast	Progress rate
Net sales	409,246	445,917	+36,671	+9.0%	969,500	46.0%
Operating profit	10,963	12,792	+1,828	+16.7%	30,700	41.7%
Ordinary profit	11,212	12,933	+1,721	+15.3%	31,000	41.7%
Quarterly profit attributable to owners of parent	7,670	8,526	+855	+11.2%	20,420	41.8%
Quarterly net profit per share (yen)	81.17	91.23				

(Million yen)	2023/3	2023/9	Change	Major reasons for change
Collective assets	406,688	401,865	-4,823	Decrease in notes and accounts receivable
Net assets	143,961	151,746	+7,784	Increase in retained earnings
Capital adequacy ratio	35.2%	37.5%		

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This is the consolidated operating results for the 2nd quarter. Ordinary profit increased 15.3% yoy to 12.9 b yen, profit increased 11.2% yoy to 8.5 b yen, and quarterly net earnings per share was 91 yen. Regarding the consolidated financial position, collective assets decreased 4.8 b yen yoy to 401.8 b yen due to a decrease in notes & accounts receivable, and net assets increased 7.7 b yen yoy to 151.7 b yen due to an increase in retained earnings. Capital adequacy ratio stood at 37.5%.

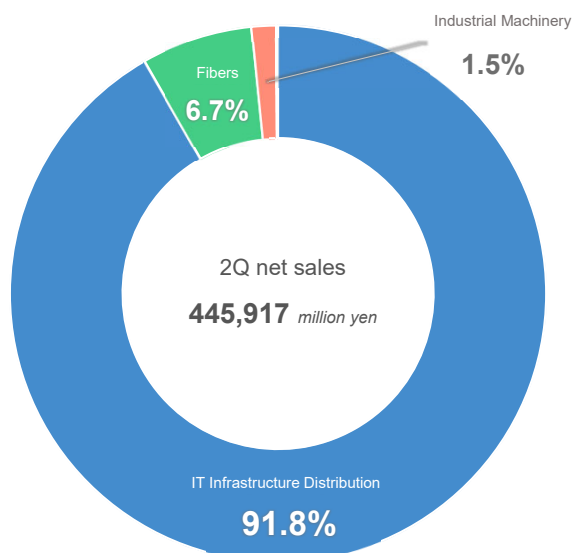
Operating Results by Segment for the Cumulative 2nd Quarter of the Fiscal Year Ending March 2024



(Million yen)		2023/3 Q	2024/3 Q	Change	Compared to previous term
Net sales	IT Infrastructure Distribution	371,705	409,237	+37,531	+10.1%
	Fibers	31,356	29,679	-1,676	-5.3%
	Industrial Machinery	5,804	6,680	+876	+15.1%
	Others	379	320	-59	-15.6%
	Total	409,246	445,917	+36,671	+9.0%
Operating profit	IT Infrastructure Distribution	9,739	11,593	+1,854	+19.0%
	Fibers	718	620	-98	-13.7%
	Industrial Machinery	437	521	+83	+19.0%
	Others	58	33	-25	-43.6%
	(Adjustment)	9	24	+15	+162.2%
Total	10,963	12,792	+1,828	+16.7%	

Next is the operating results by segment for the period. Looking at the cumulative sales results for 2nd quarter, as you can see, IT Infrastructure Distribution was a major driver.

Segment Mix



Percentage of net sales

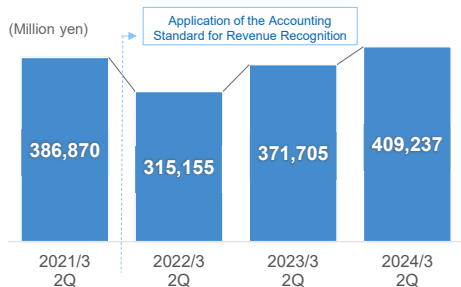
	2023/3 2Q	2024/3 2Q
IT Infrastructure Distribution	90.8%	91.8%
Fibers	7.7%	6.7%
Industrial Machinery	1.4%	1.5%

Percentage of operating profit

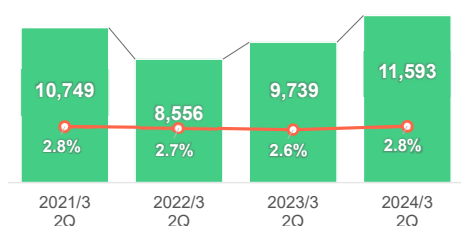
	2023/3 2Q	2024/3 2Q
IT Infrastructure Distribution	88.8%	90.6%
Fibers	6.6%	4.8%
Industrial Machinery	4.0%	4.1%

Segment mix is as shown. IT Infrastructure Distribution business accounted for 91.8% of sales and 90.6% of operating profit.

IT Infrastructure Distribution Business



■ Net sales ■ Operating profit ■ Operating profit margin



Transaction volume * Net sales under the old standard **440,269** million yen (+10.4% compared to previous term)

Net sales **409,237** million yen (+10.1% compared to previous term)

Operating profit **11,593** million yen (+19.0% compared to previous term)

Number of PCs shipped **1,378,000** units (-4.7% compared to previous term)

Number of servers shipped **25,000** units (-9.8% compared to previous term)

Subscription handling volume **48,954** million yen (+17.8% compared to previous term)

iKAZUCHI handling volume **13,743** million yen (+42.9% compared to previous term)

Review of the business

Corporate market

- Sales of PCs, servers, services and support to companies and government offices were strong and we acquired medium to large-size IT investment projects stably so results exceeded those of the previous fiscal year. Contracts for subscription products through iKAZUCHI also remained strong.
- This fiscal year in the education market is one of declining introductions of terminals for elementary and junior high schools, with demand for terminal purchases for teachers also settling down, and results were below those for the previous year.

Consumer market

- Sales to both mass retailers and EC declined due to market stagnation, but profit increased due to the improvement of PC, monitor and printer profitability.

I will explain the results by segment. 1st is the IT Infrastructure Distribution business. We have steadily won medium to large-sized IT investment projects, mainly for companies and government agencies, which drove our sales.

We are also steadily increasing contracts for iKAZUCHI, our focused business.

On the other hand, in the education market, this year was a trough year for introduction of terminals to elementary and junior high schools. As a result, sales dropped yoy.

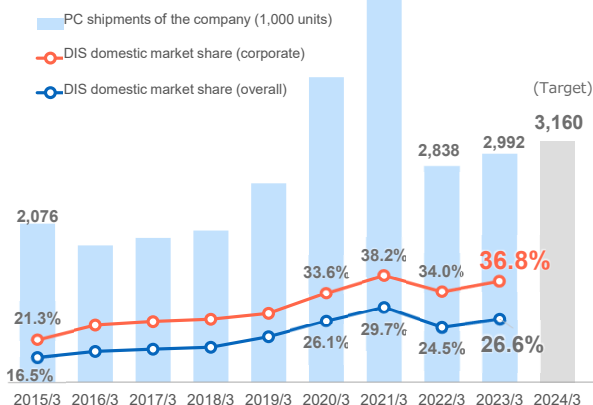
In the consumer market, sales decreased due to sluggish personal consumption, but profits increased due to improved profitability of products.

As a result, sales of IT Infrastructure Distribution business increased 10.1% yoy to 409.2 b yen, and operating profit increased 19.0% yoy to 11.5 b yen.

Domestic PC Market Share and Product Category Composition

Trend in full-term PC share

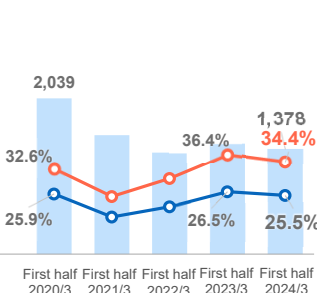
The company is involved in **at least one out of every three PCs** for corporate use



Trend in 1st half results

Domestic PC market share

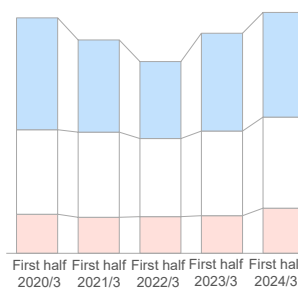
For corporations **34.4%**
Overall **25.5%**



Transaction volume by DIS category

Compared with previous year

PC main units* **+7.1%**
Peripherals, services, etc. **+7.6%**
Software **+20.2%**



* Calculated based on the results of a survey by MM Research Institute
(As the figure for the first half 2024/3 is based on the survey company's preliminary results, the official figure for share may change)

*PC main units = the main terminal unit of a PC, server, tablet, smartphone, etc.

This is our Domestic PC market share and Product Category Composition. Please take a look at the graph in the center. Number of PCs shipped in the 1H was 1 m 378 k units, was a market share of 25.5% overall and 34.4% in the corporate market. Although the Number of shipments were slightly lower than the previous fiscal year, in terms of value, it increased thanks to an increase in the unit price of PCs.

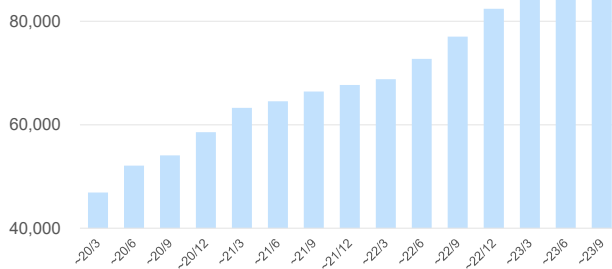
Results for Subscription Business

Subscription handling volume (DIS only)

First half 2023/3 **41,546** +17.8% First half 2024/3 **48,954**

▶ Total for last 12 months **95,514**

■ Trend in total transaction volume for 12 months (considering annual charges, etc.)



Subscriptions

Defined as products and services where ongoing revenue can be expected as long as users do not terminate their contracts, regardless of billing type (monthly, annual, pay-as-you-go, etc.)

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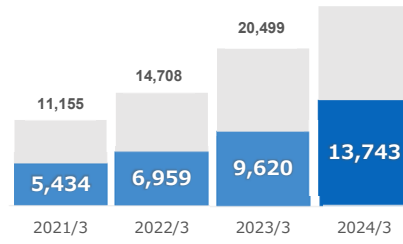
iKAZUCHI handling volume

(Million yen)

Total sales to dealers through the "iKAZUCHI" subscription management portal

+42.9% compared to previous term

2024/3 target **26,000**



Number of supported vendor services

115 vendors
230 services (2023/3)

120 vendors
231 services (2023/9)

Expand the subscription business market and strengthen the "foundations" of ongoing revenue

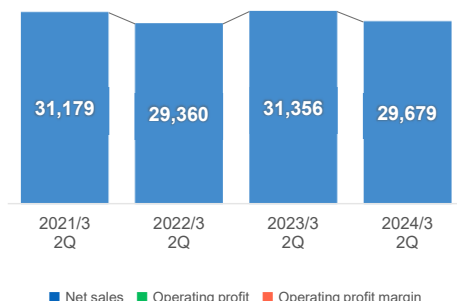


This is the results of our Subscription business. Transaction volume in the 1H increased 17.8% yoy to 48.9 b yen. As shown in the blue graph on the left, transaction volume through subscription is steadily expanding.

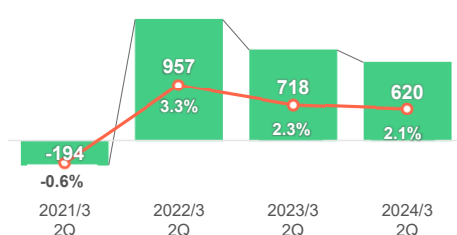
Also, regarding iKAZUCHI, DIS's original management portal, the number of vendors as well as service menus offered have steadily increased, and total sales to sales partners in the 1H increased 42.9% yoy to 13.74 b yen.

Fiber Business

(Million yen)



■ Net sales ■ Operating profit ■ Operating profit margin



Net sales **29,679** million yen (-5.3% compared to previous term)

Operating profit **620** million yen (-13.7% compared to previous term)

Review of the business

Synthetic Fibers and Rayon Divisions	<ul style="list-style-type: none"> Sales of antiperspirant sheets and cosmetics remained steady, and functional rayon was also strong, but sales and profits declined due to the sluggish recovery in demand for building materials for the United States and high raw material and fuel prices.
Industrial Material Division	<ul style="list-style-type: none"> The recovery in demand for cartridge filters for the electronic parts industry was delayed significantly, but sales and profit increased due to sales of construction sheets, belt-related products and rubber sponges remaining steady.
Clothing Products Division	<ul style="list-style-type: none"> Profits increased because the profitability of domestic apparel improved due to the recovery of orders and the penetration of price revisions.

[Reference] Reflecting the effects of inappropriate transactions in 2Q of 2021/3 (disclosed December 11, 2020)

	2021/3 2Q	
	Impact	When impact is excluded
Net sales	-640 million yen	31,819 million yen
Operating profit	-1,994 million yen	1,800 million yen

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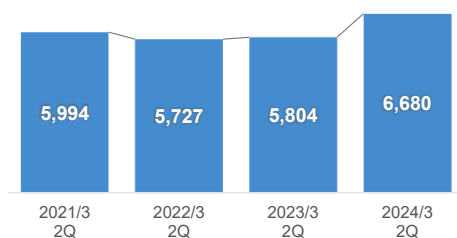
Next is Fiber business. Synthetic Fibers & Rayon Div continued to struggle despite sales of antiperspirant sheets and cosmetics remaining strong, and sales of functional rayon showing growth, as recovery in demand for building materials in the US was slow and raw material & fuel prices remained high.

In the Industrial Material Div, although recovery in demand for cartridge filters for electronic parts industry was significantly slower than expected at the beginning of the fiscal year, sales and profits increased due to steady sales of construction sheets, belt-related products, and rubber sponges.

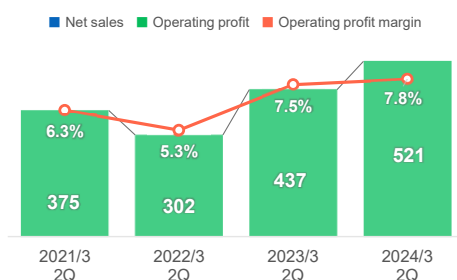
As a result, sales in Fiber business decreased 5.3% to 29.6 b yen, and operating profit decreased 13.7% yoy to 600 m yen due to the impact of cost increases across the business for higher raw material and fuel prices and weaker yen.

Industrial Machinery Business

(Million yen)



Net sales **6,680** million yen (+15.1% compared to previous term)
Operating profit **521** million yen (+19.0% compared to previous term)



Review of the business

Machine Tools Division

- Total orders received from April to September as reported by the Japan Machine Tool Builders' Association decreased 17.7% compared to the previous term, and the Chinese wind power industry, which was booming, entered an inventory adjustment phase and orders decreased 7.7% compared to the previous term.
- Sales and profit increased due to strong shipments to the Chinese wind power industry, orders for which were received in the previous fiscal year, and there were also sales of large equipment to the United States.
- Demand in the aircraft industry is on a recovery trend, with an increase in the number of inquiries.

Automatic Machinery Division

- Although sales increased due to shipments remaining steady while orders decreased 6.9% compared to the previous fiscal year, profits declined due to the impact of soaring material prices, etc.

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Next is Industrial Machinery business. In the Machine Tools Div, shipments to China wind power generation industry remained strong. Sales of large machines to the US also contributed to increase in sales and profits. Inquiries from the mainstay aircraft industry is gradually increasing and is on a recovery trend.

In Automatic Machinery Div, sales increased as a result of strong shipments in response to diversifying user needs, but profits decreased due to the impact of soaring material prices. As a result, sales in Industrial Machinery business increased 15.1% yoy to 6.6 b yen and operating profit increased 19% yoy to 500 m yen.

Consolidated Balance Sheet for the 2nd Quarter of the Fiscal Year Ending March 2024 (Summary of Accounts p4-5)



(Million yen)	2023/3	2023/9	Change		2023/3	2023/9	Change
Current assets	354,188	345,683	-8,504	Current liabilities	231,884	217,735	-14,148
Cash and deposits	52,123	56,749	+4,626	Notes payable and accounts payable	192,594	179,367	-13,227
Notes and accounts receivable	216,674	198,009	-18,664	Short-term loans payable	12,869	10,991	-1,877
Goods and products	39,273	48,188	+8,914	Non-current liabilities	30,842	32,383	+1,540
Property, plant and equipment	37,127	37,084	-43	Long-term loans payable	13,230	13,600	+370
Intangible fixed assets	2,081	4,177	+2,095	Total liabilities	262,726	250,118	-12,608
Investments and other assets	13,291	14,920	+1,628	Total net assets	143,961	151,746	+7,784
Total assets	406,688	401,865	-4,823	Total liabilities and net assets	406,688	401,865	-4,823

Notes and accounts receivable	216,674	->	198,009	-18,664	Decrease in DIS accounts receivable
Notes payable and accounts payable	192,594	->	179,367	-13,227	Decrease in DIS purchase receivables
Total loans	26,099	->	24,591	-1,507	

Next, I'd like to provide some additional information about the balance sheet. Let me start with assets. The balance of cash and deposits were 56.7 b yen, an increase of 4.6 b yen from the end of the previous fiscal year. Notes & accounts receivable decreased 18.6 b yen from the end of the previous fiscal year to 198.0 b yen. Goods & products increased 8.9 b yen from the end of the previous fiscal year to 48.1 b yen.

Moving on to Liabilities/Net Assets section. Notes & accounts payable decreased 13.2 b yen from the end of the previous fiscal year to 179.3 b yen. Loans payable including short term and long term, totaled 24.5 b yen, a decrease of 1.5 b yen from the end of the previous fiscal year.

Consolidated Profit Statement for the 2nd Quarter of the Fiscal Year Ending March 2024 (Summary of Accounts P6)



(Million yen)	2023/3 2Q		2024/3 2Q		Change	Compared to previous term
	Results	Percentage	Results	Percentage		
Net sales	409,246		445,917		+36,671	+9.0%
Gross profit	31,444	7.7%	36,214	8.1%	+4,769	+15.2%
Selling, general and administrative expenses	20,480	5.0%	23,421	5.3%	+2,941	+14.4%
Operating profit	10,963	2.7%	12,792	2.9%	+1,828	+16.7%
Ordinary profit	11,212	2.7%	12,933	2.9%	+1,721	+15.4%
Extraordinary profit	58		0			
Extraordinary loss	44		25			
Quarterly profit attributable to owners of parent	7,670	1.9%	8,526	1.9%	+855	+11.2%

Extraordinary loss Loss on valuation of shares of subsidiaries and associates (23 million yen)

This is the Profit Statement. Sales and profits have been reported in the summary. Gross profit increased 4.7 b yen from the previous fiscal year to 36.2 b yen. Gross profit margin increased 0.4% from 7.7% in the previous fiscal year to 8.1%. SG&A expenses increased 2.9 b yen from the previous fiscal year to 23.4 b yen due to factors such as increases in employee salaries.

Business Outlook for the Full Term of the Fiscal Year Ending March 2024

Next, I will explain the business outlook for the full term of the fiscal year ending Mar 2024.

Business Forecast for the Full Term of the Fiscal Year Ending March 2024



(Million yen)	2023/3 (Results)	2024/3		Change *	Compared to previous term *
		Initial forecast (Disclosed May 15)	Revised forecast (Disclosed November 9)		
Net sales	903,918	950,000	969,500	+65,581	+7.3%
IT Infrastructure Distribution	828,997	872,700	894,300	+65,302	+7.9%
Fibers	61,980	63,680	61,220	-760	-1.2%
Industrial Machinery	12,170	13,000	13,360	+1,189	+9.8%
Operating profit	27,944	30,700	30,700	+2,755	+9.9%
IT Infrastructure Distribution	25,394	26,550	27,905	+2,510	+9.9%
Fibers	1,499	2,955	1,600	+100	+6.7%
Industrial Machinery	886	1,150	1,150	+263	+29.7%
Ordinary profit	28,608	31,000	31,000	+2,391	+8.4%
Profit attributable to owners of parent	19,059	20,420	20,420	+1,360	+7.1%

* Comparison of revised forecasts with the previous term

This is the fullterm business forecast for the fiscal year ending Mar 2024. Consolidated sales have been revised to 969.5 b yen, driven by strong IT Infrastructure Distribution business. Operating profit remains unchanged at 30.7 b yen due to factors such as persistently high raw material prices and sluggish overseas demand in Fibers business.

Focus Measures in IT Infrastructure Distribution Business



Acquisition of share in each category in IT device distribution

- ▶ Strengthening of information collection for partners to acquire PC update demand
- ▶ Strengthening of IT equipment lineup and handling of diverse forms of purchasing
- ▶ Improvement of market share in the education market through the use of terminals, the promotion of STEAM education, etc.

Implementation and strengthening of high-level support functions

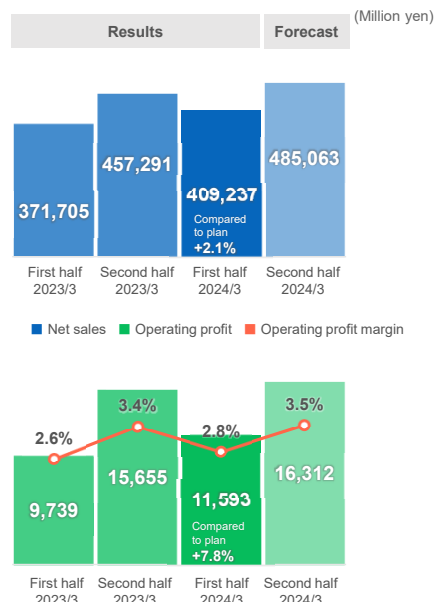
- ▶ Strengthening of the support system for increasingly sophisticated IT infrastructure and deepening of cooperation with core manufacturers
- ▶ Expansion of original services and promotion of ATS cooperation

Branding as a cloud distributor

- ▶ Functional expansion of iKAZUCHI and strengthening of branding
- ▶ Expansion of market share in the megacloud market by promoting cloud shift proposals

Productivity improvements in the supply chain as a whole

- ▶ Continuous investment in information systems, such as the strengthening of sales activities by use of RPA and BI tools, and support for tactical development by use of SFA
- ▶ Promotion of low-cost operations through the use of e-commerce



I will explain the focus measures for each business for the fiscal year ending Mar 2024. 1st is the IT Infrastructure Distribution business.

In addition to expanding existing business categories, we will work to create markets in growth fields such as cloud computing and improve productivity across the entire supply chain. Furthermore, we will steadily collect info on PC replacements, which will become full-fledged next year, to capture demand and lead to steady growth.

Focus Measures in Fiber Business



Reform into a company satisfying to work at centered on ESG

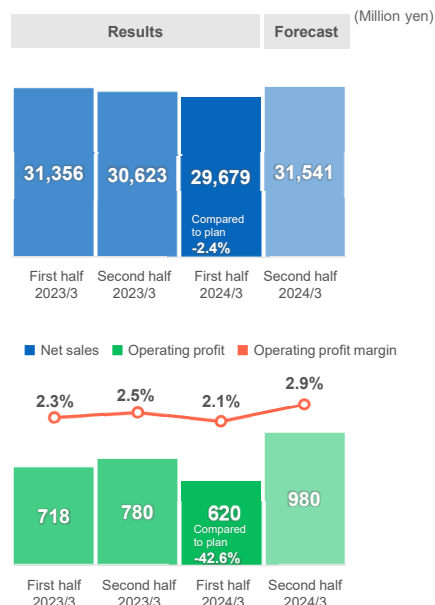
- ▶ Thorough implementation of compliance management by systematizing the work flow and strengthening the audit and check system focusing on actual sites
- ▶ Establishment of an environment that is easy to work in by reviewing personnel systems, introducing new systems, expanding employee education, etc.

Strengthening of the development of unique materials based on the deep plowing of fiber strategy

- ▶ R&D activities that grasp "the company's strengths" and "opportunities" through the group's cross-business research system to create products that will become the pillars of the next generation.
- ▶ Contributions to a sustainable society through the creation of environmentally conscious products based on the company's core technologies

Business activities conscious of invested fund efficiency

- ▶ Effective investment in new growth opportunities for the improvement of corporate value
- ▶ Strengthening of the development of new customers and applications for sanitary materials and priority allocation of management resources for the development of overseas markets for functional rayon, etc.



Next is Fibers business. Although the market environment continues to be tough, we have strengthened our corporate governance, established a solid management system, expanded our R&D functions, and engaged in business activities was an eye toward optimal allocation of managerial resources.

Focus Measures in Industrial Machinery Business



Business expansion into potential markets in machine tools

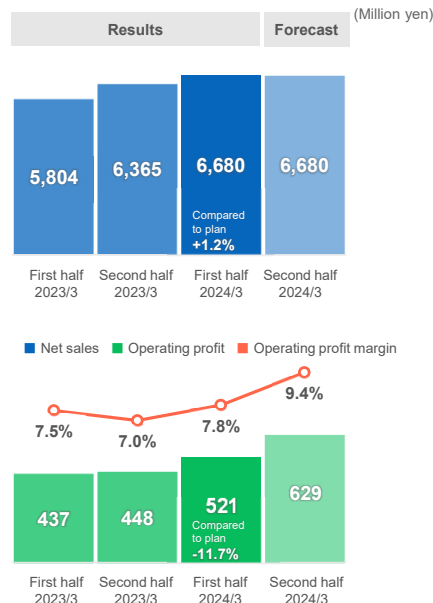
- ▶ Increase inventory of general-purpose machinery in Japan, the United States and China, and start planned production of the RT-915 series of small machinery this fall.
- ▶ Eliminate opportunity losses to meet customer needs for short delivery and prompt delivery
- ▶ Strengthening of sales activities for overseas markets in the aircraft industry

Capture of demand for packaging machine automation in automatic machinery

- ▶ Renew and promote sales of continuous cartoners for the food and confectionery industry and intermittent cartoners for the pharmaceutical industry
- ▶ Cost reductions by strengthening overseas procurement
- ▶ Strengthen service systems and improve competitiveness in the Chinese market

Improvement of profitability by strengthening services

- ▶ Continuous strengthening of service structure by strengthening alliances with external service companies
- ▶ Improvement of customer satisfaction by raising the level of young sales employees and engineers through internal education aimed at the expansion of services



Next is Industrial Machinery business. Our mainstay aircraft industry is on a recovery trend, and we are strengthening our sales structure overseas. Also, in order to capture demand for automatic machinery in the Chinese market, we are bolstering our alliances with local service companies to improve our competitiveness.

- Subject period **BY2021 to BY2023** (3-year plan)
- Positioning **“A turning point anticipating development into the future”**
 - ▶ A period of challenging towards “business model reform” for the sustainable growth of the company
 - ▶ Contributions to the resolution of social issues through business from an ESG perspective
 - ▶ Maximization of the human resource value that will create the future



Group basic policy

- 01 Creation of next-generation growth drivers**
- 02 Contributions to the creation of a new society as a leading company**
- 03 Reform of management foundation**

Next, I'd like to review the medium-term management plan announced in May 2021. We have positioned the 3 years under the plan to be “A turning point anticipating development into the future” and are focusing on business model transformation, business operations with ESG perspectives, and human resource development.

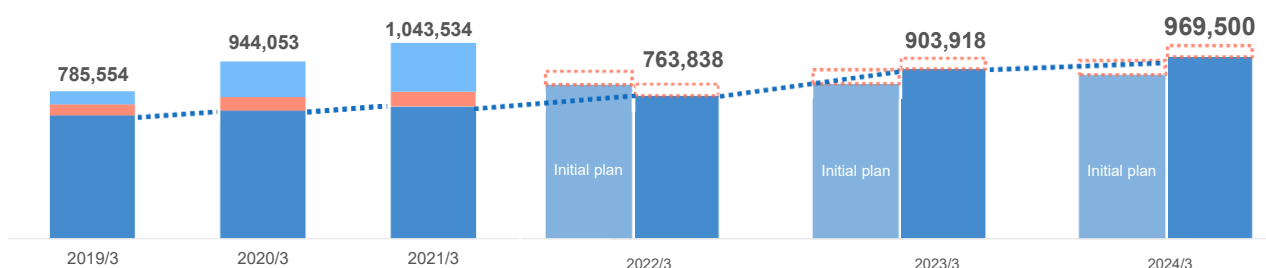
State of Progress of the Medium-Term Management Plan < Revenue Indicators >



(Million yen)	2022/3		2023/3		2024/3	
	(Initial Plan)	(Results)	(Initial Plan)	(Results)	(Plan)	(Revised forecast)
Net sales	820,000	763,838	830,000	903,918	875,000	969,500
Operating profit	28,500	24,059	28,600	27,944	31,400	30,700
Operating profit margin	3.5%	3.1%	3.5%	3.1%	3.6%	3.2%

< Image of trend in net sales >

- Net sales in association with concentrated demand for terminals * Estimates based on certain conditions (Windows updates, GIGA school concept, demand for telework, etc.)
- Estimated impact of the application of the Revenue Recognition Standard * Estimates based on actual results

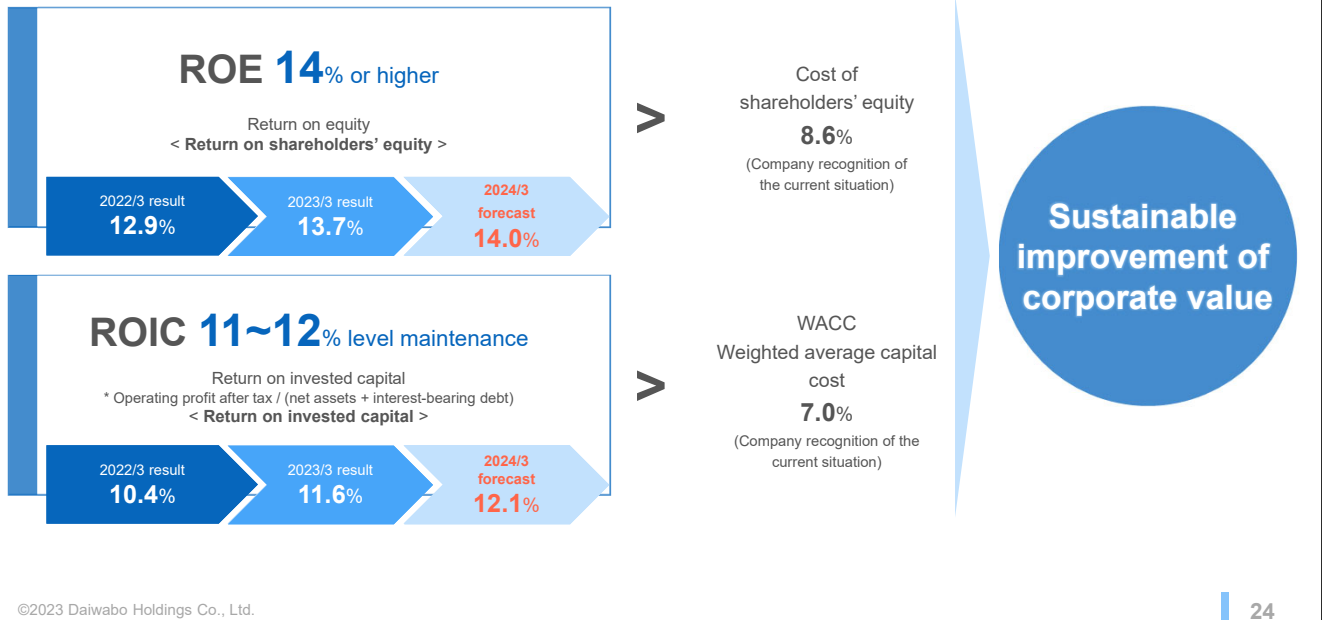


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This is the state of progress of the profit indicators of the medium-term management plan. In the 1st year, both sales and operating profit were lower than originally planned. Last year, the 2nd year, sales increased significantly compared to the initial plan, but operating profit decreased. In this fiscal year, the final year of the plan, sales are expected to increase, but operating profit is expected to decrease.

State of Progress of the Medium-Term Management Plan < Group Management Indicators >



I'd like to look back on our results regarding the group management indicators, ROE & ROIC. ROE for the fiscal year ended Mar 2023 was 13.7%. We are aiming to achieve the target of 14% or more this term.

Regarding ROIC, our target is to maintain a level of 11-12% for 3 years. In the fiscal year ended Mar 2023, it was 11.6%, and we will continue to improve this by thoroughly conducting management with an awareness of capital efficiency.

Medium-Term Management Plan - Cash Allocation Policy



Basic policy

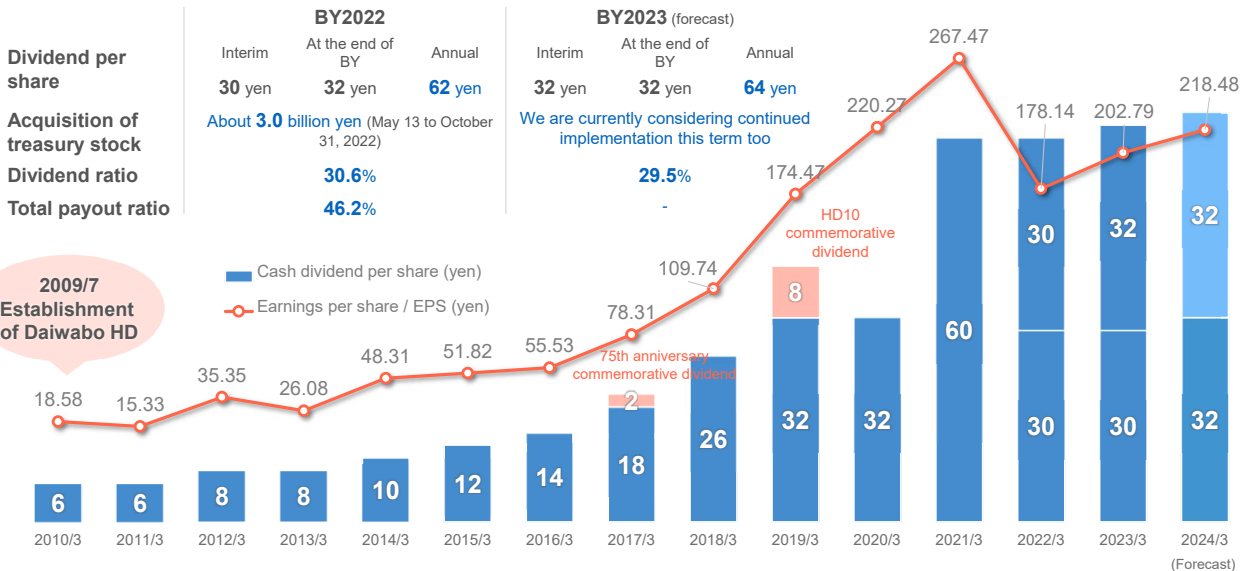
- We will aim to enhance shareholder returns appropriately.
- We will make growth investments in new areas while continuing to invest towards the sustainable growth of existing business.
- We will prepare for strategic product procurement and unforeseen circumstances while securing a certain level of liquidity on hand.

< Cash allocations >

Dividends	Growth investment in existing areas	Growth investment in new areas	Acquisition of treasury stock	Securing of liquidity on hand
<p>We will make a stable dividend of 60 yen per share (including interim dividends) our basic policy and also consider dividend increases matched to our cash situation.</p> <p>BY2023 Dividend forecast Interim 32 yen + At the end of BY 32 yen</p>	<p>We will invest in equipment towards the sustainable growth of existing business and implement marketing, R&D and the hiring of human resources.</p>	<p>We will start to consider business partnerships and M&A to nurture new business pillars, centered on DX-related areas where market growth is expected.</p>	<p>We will consider the flexible acquisition of treasury stock in accordance with the market environment.</p> <p>We are currently considering continued implementation this term too</p>	<p>Securing of liquidity on hand in readiness for fund demand in association with strategic product procurement in IT Infrastructure Distribution Business and unforeseen circumstances</p>

For our cash allocation policy, we plan to pay a dividend of 64 yen per share, with an interim dividend of 32 yen and a year-end dividend of 32 yen. Additionally, we are considering acquiring treasury stock this fiscal year as well, and will work to appropriately enhance shareholder returns.

Shareholder Return



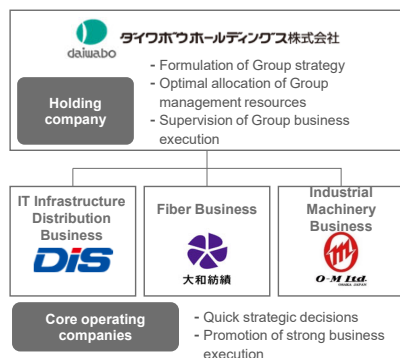
* Figures shown with the reverse stock split (October 1, 2017) and stock split (April 1, 2021) applied retrospectively to past fiscal years.

Dividend per share and EPS since the establishment of Daiwabo Holdings are shown below. To reiterate, we plan to pay a dividend of 64 yen for the fiscal year ending Mar 2024.

Group Governance



Clarification of each group company's responsibility and authority



Securing of independence and diversity of Board of Directors

Ratio of Independent Outside Directors **62.5%**

Ratio of female Directors **25%**

Skill matrix

Name	Title	General corporate management	Management planning Management strategy	Legal Compliance Governance	Finance and accounting Finance	Human resources and labor affairs Human resource development Diversity	ICT DX-related	ESG SDGs	International
Yukihiko NISHIMURA	Representative Director, President & Chief Executive Officer	●	●	●	●	●	●		
Mitsushige YASUDA	Director	●	●		●	●	●		
Tsukasa IGARI	Director	●	●	●			●	●	
Kenichi DOHI	Director (Outside)	●	●	●				●	●
Kazuyuki NAKAMURA	Director (Outside)	●	●	●			●	●	
Yukiko YOSHIMARU	Director (Outside)	●	●	●		●		●	●
Takako FUJIKI	Director (Outside)	●	●			●	●		●
Tetsuro HORI	Director (Outside)	●	●	●	●		●		●
Masaya ONO	Audit & Supervisory Board Member (Fulltime)			●	●				
Masuji UEDA	Audit & Supervisory Board Member (Outside)			●	●				
Saeko KAKUIISHI	Supervisory Board Member (Outside)			●					

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Next, I will explain our group governance. By further clarifying the responsibilities and authority of each company, each of our 3 operating companies is responsible for swift strategic decisions and strong business execution as the core of their respective businesses.

In this context, Daiwabo Holdings takes a high-level stand point and with a group wide broad perspective, formulates group strategies and is strengthening its supervisory function.

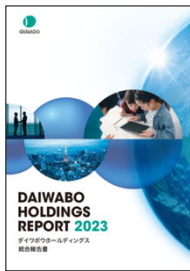
Furthermore, our board of directors is comprised of 5 independent outside directors, 2 of whom are female directors, and 3 internal directors, ensuring independence and diversity. Through this, we will further strengthen group governance with the aim of increasing corporate value over the medium to long term.

We have also released a skill matrix that shows the skill composition required of our board of directors and Audit and Supervisory Board members.

“Integrated Report 2023” published for the first time in November

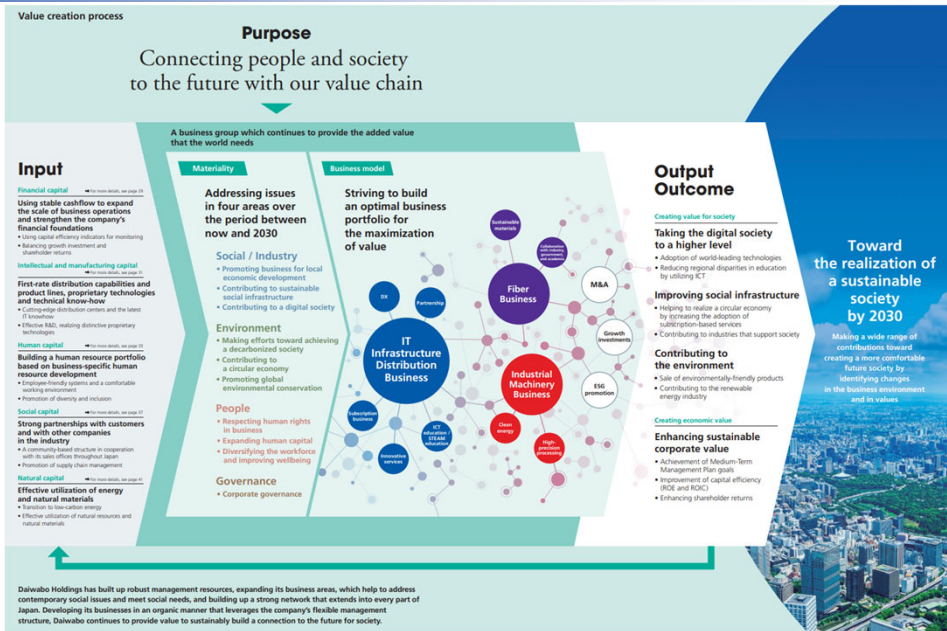


This report aims to convey the company's purpose, value creation process, etc., to all stakeholders in an easy-to-understand way. It provides an integrated collection of financial and non-financial information, including business strategy, results, corporate governance and environmental and social initiatives.



QR for download

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This month, we published our 1st integrated report. I hope many of you will take a look. I will explain about the purpose mentioned here later.

State of Key Considerations for the Formulation of the Next Medium-Term Management Plan

I'd like to explain the status of the "Important Considerations and system for Consideration of the Formulation of the Next Medium Term Management Plan," which we announced in May.

Key Considerations for the Next Medium-Term Management Plan



Ahead of the formulation of our next medium-term management plan scheduled for announcement in May 2024, we have arranged the key considerations and the consideration system.

We have redefined the group's reason for existence as its "purpose" and are currently promoting its inclusion in management plans.

Considerations	Overview	Current status
The establishment of a company-wide purpose and the formulation of a growth strategy	<ul style="list-style-type: none"> We will identify the group's identity and establish a purpose based on social trends and the DNA of our corporate organization. We will formulate a growth strategy from the perspective of what to make the core of the company and how to maximize profitability from that starting point and realize the social significance of the company. 	<ul style="list-style-type: none"> We formulated the new group purpose and released it along with our value creation process in the integrated report published in November 2023. Based on the formulated purpose, we are currently considering growth strategies while verifying growth areas and the added value that the company provides. <p>* The group's purpose is on the next page.</p>
Establishment of the optimal business portfolio for the maximization of the corporate value of the group as a whole	<ul style="list-style-type: none"> We will establish the optimal business portfolio by implementing strategic options at the appropriate time for the maximization of corporate value after verifying the best owner principle, evaluation of the business environment and capital profitability of existing business with reference to Practical Guidelines for Business Transformations formulated by the Ministry of Economy, Trade and Industry, etc. 	<ul style="list-style-type: none"> We are currently considering making textile business independent from the group as a strategic option for the maximization of corporate value. <p>* We have started specific discussions with Daiwabo and will consider options that would contribute to increasing the value of textile business by a method appropriate for shareholders, employees, business partners, etc.</p>
Realization of the optimization of growth investment and shareholder returns	<ul style="list-style-type: none"> We will formulate capital allocation policies aimed at the improvement of corporate value by realizing optimal growth investment and shareholder returns based on capital costs. Optimization of the allocation of resources - people, things and money - and establishment of a capital policy that can maximize returns to shareholders. 	<ul style="list-style-type: none"> With regard to the policy for the allocation of the revenue generated by each operating company, we are currently considering capital allocation aimed at the maximization of the profitability of the group overall, rather than prioritizing only growth investment for expansion of the results of each respective business.

As I mentioned earlier in the publication of the integrated report, we formulated our group's "purpose." Based on this purpose, which was established in light of social trends and the DNA of our company's organization, we will formulate future growth strategies for the group. I will provide additional info about purpose on the next page. Regarding other matters, we are continuing to consider them, and if any decisions are made, we will disclose them at an appropriate time.

purpose

Connecting people and society to the future with our value chain

We believe that the purpose of the group's existence is to connect and link people in business, companies, and local communities in the value chain that consists of various social activities. We will demonstrate our collective strength by focusing on partnership, branding the entire value chain, and organically collaborating and cooperating with others to address social issues that would be difficult to solve by our group alone.

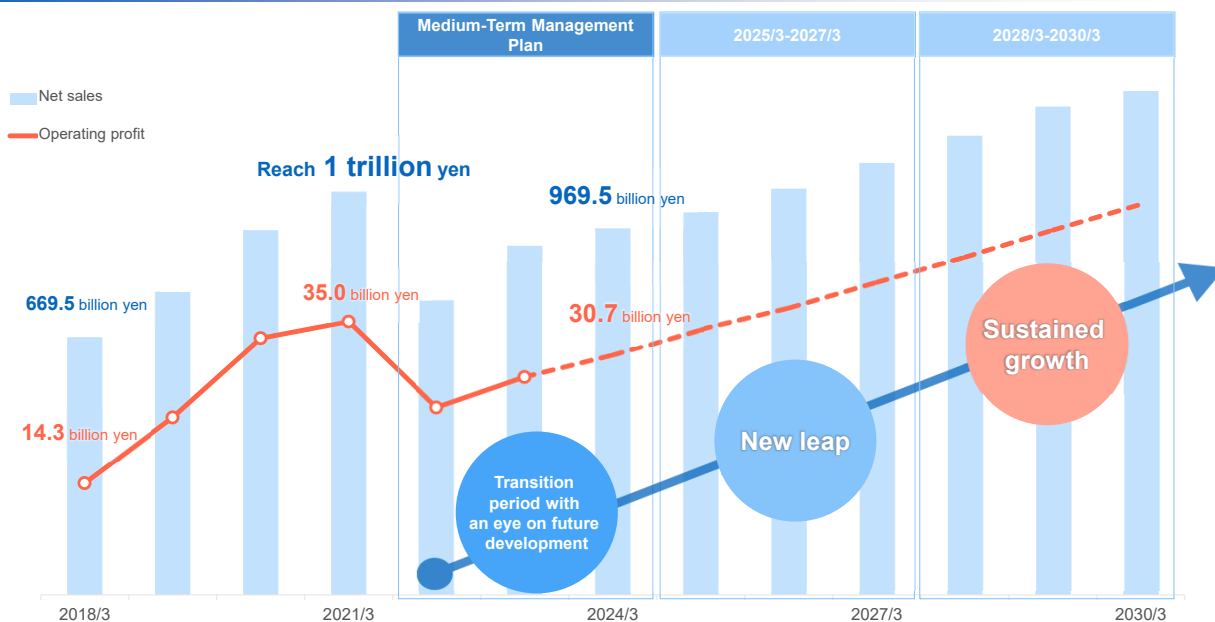
Also, "Connection to the future" expresses our determination to realize a future with comfort, safety and security, and happiness for people and society. We are aiming to achieve this by constantly exploring and experiencing new technologies through the promotion of diverse advanced IT products and services and through the quest of research and development that can contribute to daily life and many industries, and by feeding back those technologies to our value chain. We will not only support the infrastructure of modern society but also make a wide range of contributions to creating a more comfortable future society by catching changes in the business environment and values.

Let me briefly explain about our purpose. This purpose, which represents our *raison d'être*, shows our group's long-term vision for our social purpose and value proposition, and is a comprehensive message of our materiality towards 2030.

The phrase, "Connecting people and society to the future with our value chain" contains our "thoughts" and "pride." Our group plays an important role in the value chain that makes up various social activities, and creates value by connecting and linking people involved in business, companies, and local communities.

Going forward, we will use this purpose as a starting point as we work to formulate an equity story that responds to changes in the business environment.

Looking ahead to 2030



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Lastly, I would like to reiterate our vision for future growth. In the next medium-term management plan, we will focus on the 3 important considerations that I explained earlier. We plan to disclose the results of our deliberations regarding this matter.

We aim to be a long trusted group by all of our stakeholders by making a new leap to lead to sustainable growth ahead. We look forward to your continued support. Thank you for your attention.

References

- ▶ Application of the Accounting Standard for Revenue Recognition
- ▶ Corporate Profile
- ▶ Charts for Performance Trend

Application of the Accounting Standard for Revenue Recognition



The company is applying the “**Accounting Standard for Revenue Recognition**,” ASBJ Statement No. 29, from the fiscal year ended March 2022
 We have changed the sales recording method for some transactions of IT Infrastructure Distribution Business

(Million yen)		2022/3	2023/3	Change
Net sales	[1] Old standard	828,706	962,233	+133,526 +16.1%
	[2] New standard	763,838	903,918	+140,079 +18.3%
	[2] - [1]	-64,867	-58,314	
Operating profit		24,059	27,944	+3,885 +16.1%
Operating profit margin	[1] Old standard	2.9%	2.9%	
	[2] New standard	3.1%	3.1%	

< Main changes >

■ Revenue recognition related to agency transactions

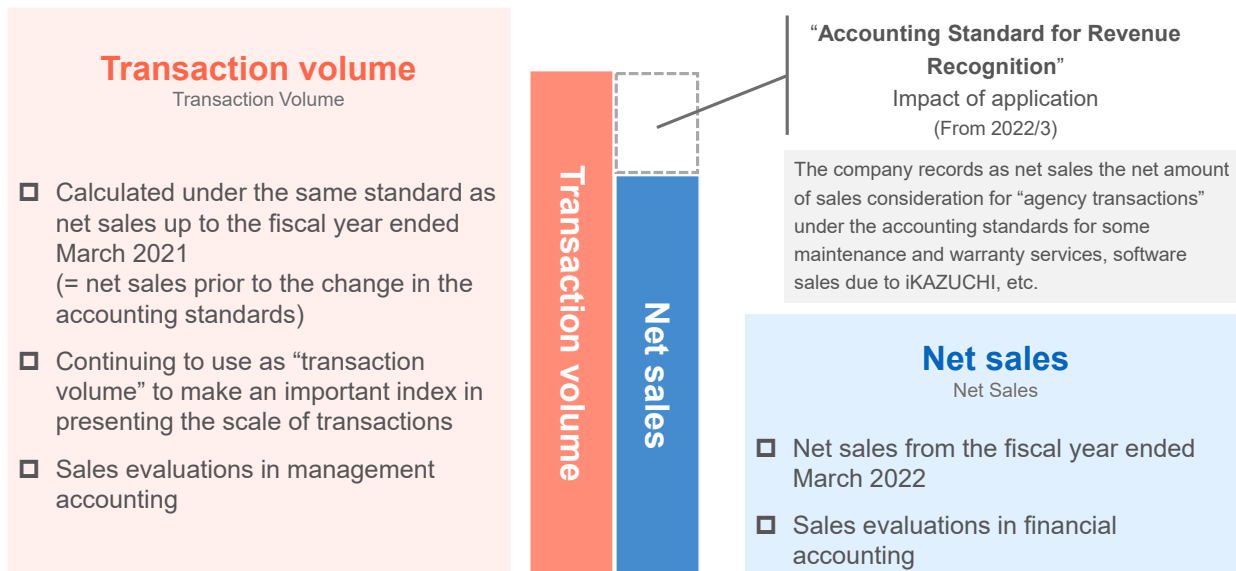
Because the role of the company in the provision of product and services to customers in regard to **some transactions such as sales of maintenance and warranty services and software (ongoing billing, etc.)** in IT Infrastructure Distribution Business falls under the category of “agent” in the accounting standard, the method for revenue recognition will change.

[Old standard]: Record sale of the **total amount** of sales consideration (A)

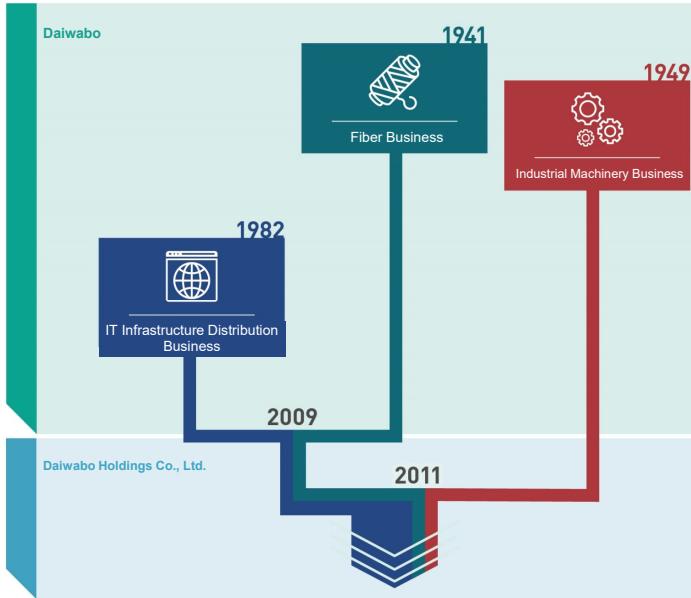


[New standard]: Record sale of the **net amount** of sales consideration (A-B)





Group History



- 1941. 4 **Daiwabo** is established through the merger of four companies: Kinka Boseki, Hinode Boshoku, Izumo Seishoku, and Wakayama Boshoku.
- 1949. 5 **Daiwabo** is listed on the First Section of the Tokyo Stock Exchange
- 1949. 7 Daiwabo spins off its Shinji Plant to establish Daiwa Machinery Co., Ltd. (currently **O-M Ltd.**).
->Subsequently, Daiwa Machinery Co., Ltd., merges with Osaka Kikai Seisakusho, a manufacturer of machine tools and spinning machines, for O-M Ltd. to be born in 1960.
- 1971.11 **O-M Ltd.**, is listed on the First Section of the Tokyo Stock Exchange.
- 1982. 4 As part of new business development, Daiwabo established **DAIWABO INFORMATION SYSTEM CO., LTD., (DIS)** to advance into information-related business.
- 2000. 9 **DIS** is listed on the First Section of the Tokyo Stock Exchange.
- 2009. 3 Daiwabo Co., Ltd. and DIS integrated their management structures.
- 2009. 7 Daiwabo changes its name to **Daiwabo Holdings Co., Ltd.** and newly establishes **Daiwa Spinning Co., Ltd.** as the core company in its Fiber Business
- 2011. 7 Daiwabo Holdings Co., Ltd. and O-M Ltd. integrated their management structures. => **Formed the current structure with 3 core businesses**

Overview of Business Segments



IT Infrastructure Distribution Business

Japan's largest distributor of IT-related products
 It has a large network of business partners through sales activities at 94 locations nationwide with strong ties to local communities
 As an independent multi-vendor company that does not specialize in specific vendors, it sells products and services of approximately 1,400 vendors around the world including PCs

Fiber Business

Synthetic Fibers and Rayon Divisions
 It offers fiber materials and products such as synthetic fiber cotton for use as hygiene materials including paper diapers, and highly biodegradable rayon

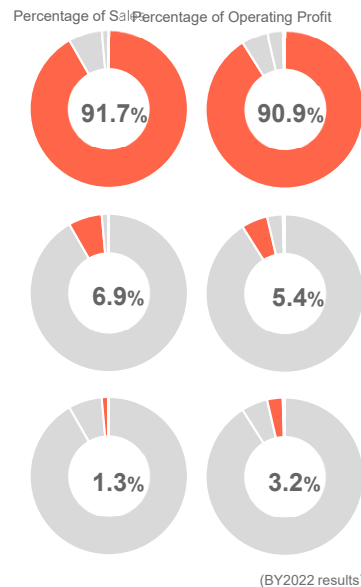
Industrial Material Division
 It offers industrial fiber products such as industrial materials, filter products, civil engineering materials, heavy cloth products and rubber products

Clothing Products Division
 It develops, manufactures and sells products such as various textile materials and functional innerwear, and manufactures and sells licensed brand clothing

Industrial Machinery Business

Machine Tools Division
 It has high market share in the domestic manufacturing of "vertical lathes/turning centers," machine tools mainly used by heavy industries such as the aerospace field

Automatic Machinery Division
 It manufactures and delivers automated packaging and packing machines to a wide range of industries including food and medical products



History of Daiwabo Information System (DIS)

1982 Founded DIS

- DIS started with only 10 staff by leveraging the knowhow with which Daiwabo Co., Ltd., developed a monitoring system for production sites in house using PCs.
- It shifted from system development and sales to sales of PCs and other information equipment.

1998 Started the operation of DIS-NET

- It started full-scale operation of the sales management system, "DIS-NET," to further strengthen the instant delivery system, which has been a tradition since its foundation.

2000 Started to provide iDATEN

- The new system enables 24-7 order placement on the B2B sales support website.

1983-1984 Accelerated development of multiple offices

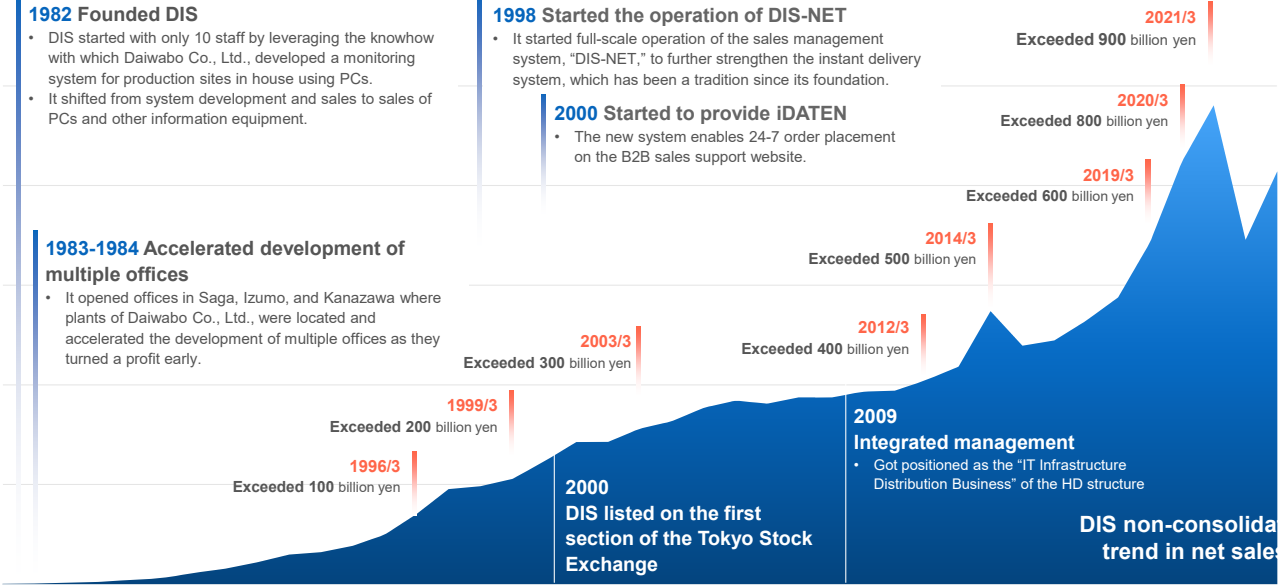
- It opened offices in Saga, Izumo, and Kanazawa where plants of Daiwabo Co., Ltd., were located and accelerated the development of multiple offices as they turned a profit early.

2009 Integrated management

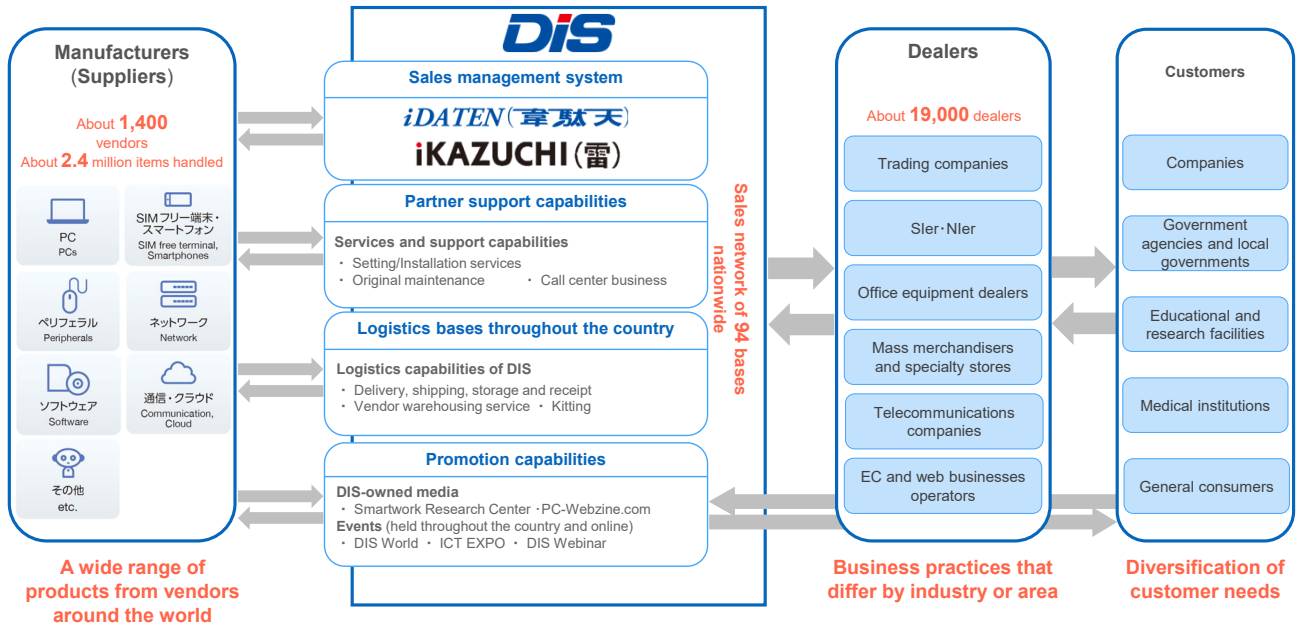
- Got positioned as the "IT Infrastructure Distribution Business" of the HD structure

2000
DIS listed on the first section of the Tokyo Stock Exchange

DIS non-consolidated trend in net sales

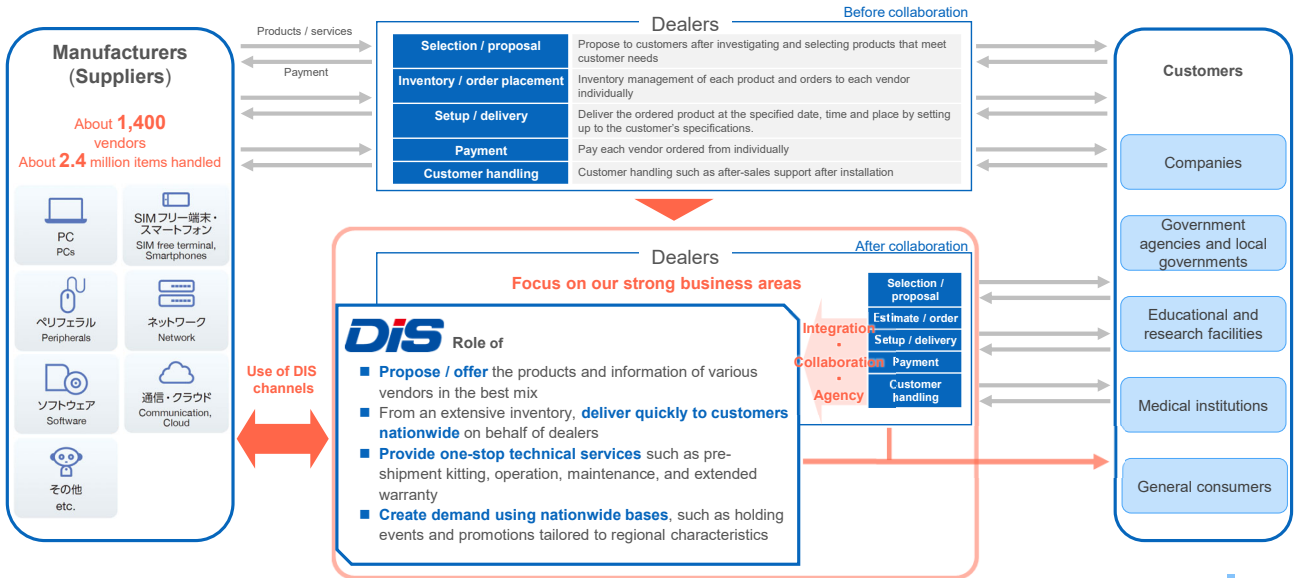


The Business Structure of IT Infrastructure Distribution Business



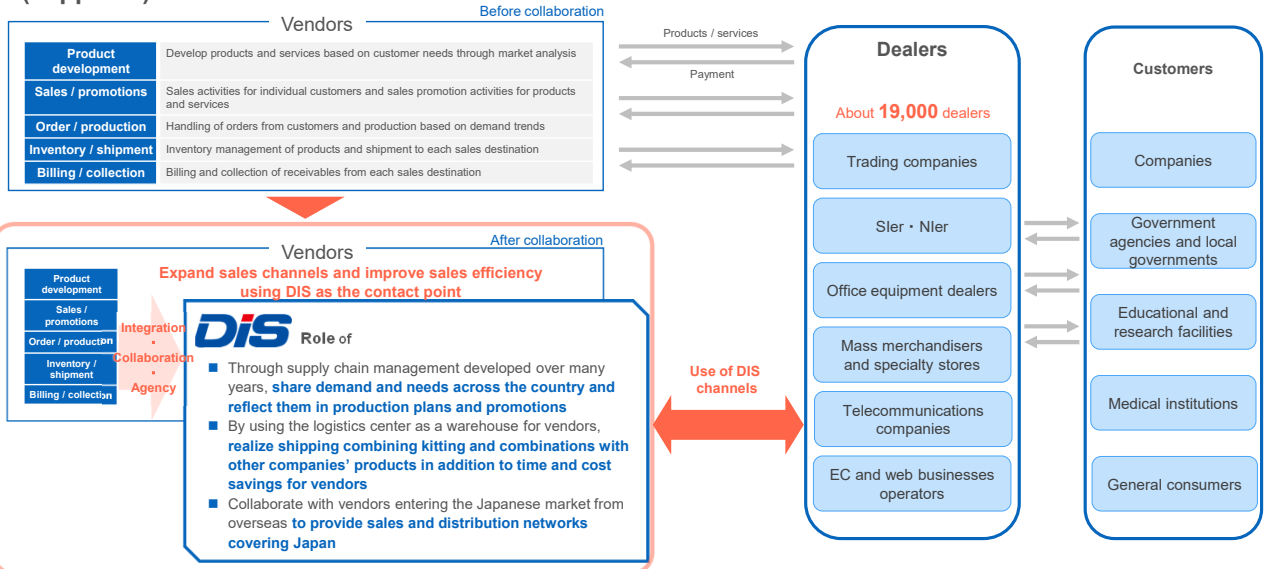
Value Added by Distributors

Dealers × **DIS**



Value Added by Distributors

Manufacturers (suppliers) × **DIS**



Streamlining of Distribution Centers

Kansai Center (Kobe City)

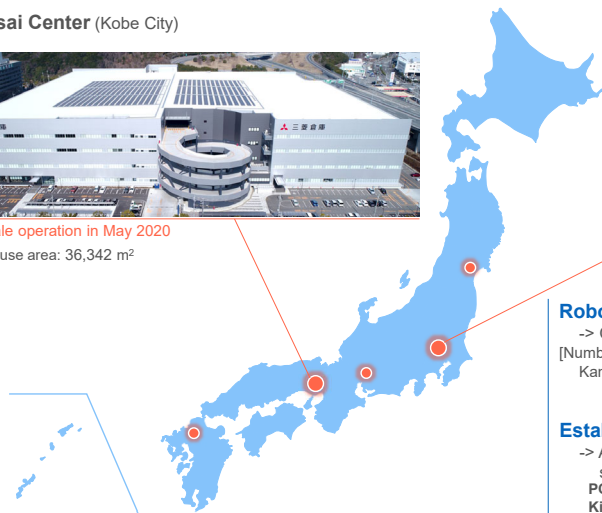


Full-scale operation in May 2020
Warehouse area: 36,342 m²

Kanto Central Center (Yoshimi-machi, Saitama Prefecture)



Full-scale operation in June 2016
Warehouse area: 44,753 m²



Focusing on improvements to efficiency and productivity centered on the east and west mega-centers

Robot storage system

-> Optimization of work efficiency and space
[Number of robots in operation]
Kanto Central: **45** robots; Kansai: **30** robots

Established together with Kitting Center

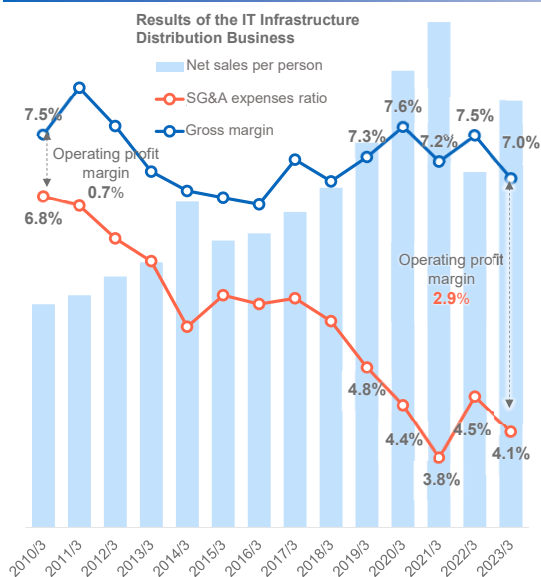
-> Arrival of goods > work > prompt handling of shipment
PCs and tablets : **180,000** annually (2023/3)
Kitting results

Truck reservation reception system

-> Sharing of incoming and outgoing information and vehicle equalizing



Greater Sales Efficiency and Low-Cost Operation



* This is different from segment results because it does not reflect consolidation adjustments.

Strengthening of sales activities

Sales expansion based on tactics

Greater efficiency of routine work

Ongoing system investment



Expansion of e-commerce ratio

Productivity improvements including suppliers

Manufacturers (Suppliers)
About 1,400 vendors



Greater logistics efficiency

Control of logistics costs

Optimization of inventory locations

Core system

Distribution Centers

Customers

Subscription management portal



- Handling of billing formats including monthly, yearly or pay-as-you-go
- Real-time management at the individual customer level
- Integrated management of multiple services
- Provision of information to end users



Supporting the subscription businesses of dealers nationwide

iKAZUCHI posting service

120 vendors / 231 services
(As of September 2023)



Collaboration	Business infrastructure and system infrastructure
Security and management	Design and creative work
Human resources	Sales and marketing

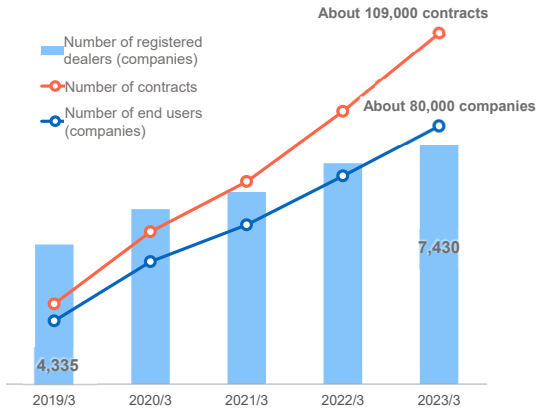


Added value

- | | | | |
|---|--|---|---|
| <ul style="list-style-type: none"> ✓ Streamlining of service issue and billing management through automatic cooperation, etc. ✓ Realize the handling of more customers through dealers ✓ Expansion of promotions | <ul style="list-style-type: none"> ✓ Strengthening of proposal capabilities and competitiveness by the expansion of posted services and provided functions ✓ Building of ongoing contractual relationships ✓ Promotion of composite proposals by improving the efficiency of subscription sales | <ul style="list-style-type: none"> ✓ Centralized management of multiple vendors and various billing formats ✓ Realize the handling of more customers with real-time contract management ✓ Expansion of sales by improving the efficiency of subscription sales | <ul style="list-style-type: none"> ✓ Grasp the state of contracts for multiple services and implement license changes in an integrated way ✓ Aggregation of payment Destinations and payment timing ✓ Contributions to results through more efficient use of subscriptions |
|---|--|---|---|

Establish a stable earnings base with iKAZUCHI

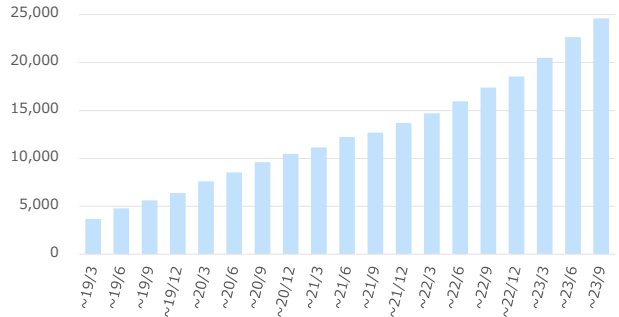
Trend in the number of registered dealers



Number of handling vendors



Trend in total transaction volume for 12 months (considering annual charges, etc.) (Million yen)



We use our “multi-vendor” strength to create added value that would not be possible with a single vendor



As a Company that Continues to Support all IT Businesses



Matching the [diversification of customer needs] and [diversification of technology] efficiently for nationwide deployment

Evolve the partner business and build
 a new business model that realizes customers' objectives using IT by combining "strengths"

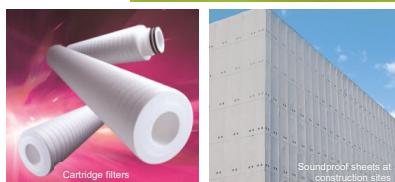
Fiber Business - Product Examples -

Synthetic fibers and rayon



- Synthetic fibers used in hygiene products such as paper diapers and feminine hygiene items
- Non-woven fabrics used for baby wipes, antibacterial sheets, face masks and other daily necessities
- Fibers that are used as an asbestos substitute and can self-heal mortar cracks
- Non-woven fabrics and clothing made using highly biodegradable rayon produced from wood pulp

Industrial materials



- Filters to filter impurities widely used in the chemical, electronic and food industries
- Civil engineering materials such as heavy fabrics used for truck tops and tent warehouses, waterproof sheeting and greening nets
- High-quality rubber sponge products used in a variety of purposes including automotive parts and home appliances
- Various industrial sheets such as soundproof sheets and curing meshes at construction sites

Clothing products



- Clothing products such as functional innerwear and comfortable outerwear
- Living materials and products
- Licensed brand clothing
"FILA" "NCAA" "T&C" "UMBRO"

[Fiber Business] Continuous Structural Reform



Daiwa Spinning

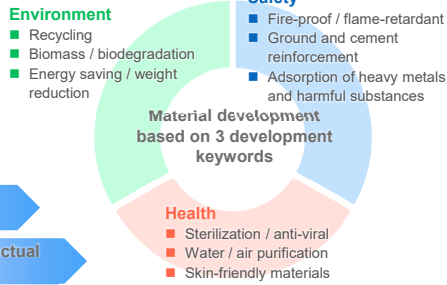
Consolidation of production bases

Completion of the relocation and consolidation of plants in Industrial Material Division

Build an integrated production system for filters with strong demand

Strengthening of R&D functions

Integration of R&D systems in each field into Harima Laboratory



Industry-government-academia cooperation

Market needs

Core technologies / intellectual property

Reorganization of operating companies

April 2020	Daiwa Spinning Co., Ltd. becomes a core business company through the merger of business subsidiaries of each division
March 2021	Dissolution of Hong Kong subsidiary and closing of overseas offices
May 2021	Sorting out of non-fiber divisions (termination of hotel business)
September 2021	Sorting out of non-fiber divisions (reduction in scale of engineering business)
October 2021	Merger between subsidiaries of Clothing Products Division
March 2022	Transfer of shares of subsidiary of Clothing Products Division
June 2022	Transfer of shares of subsidiaries of Industrial Material Division (2 companies)
January 2023	Consolidation of sales offices of subsidiaries of Clothing Products Division

Industrial Machinery Business - Product Examples -



Vertical lathes/ Turning centers



- ❑ **No. 1 share in Japan** for both medium- and large-sized lathes (Cumulative shipments exceeded 7,500 units)
- ❑ Highly evaluated as "OM for vertical lathes" in Japan and overseas
- ❑ A machine that is used to cut a workpiece by attaching it to a horizontally rotating table. The table diameter ranges from 800 mm to 6,000 mm, and it can be used in a wide variety of production modes. Highly rigid, highly accurate and easy to operate, it is used as a mother machine in all fields including aircraft engine parts and wind power generation.
- ❑ The picture on the left shows the "RT-915," a small general-purpose machine

Wheel lathes



- ❑ A machine tool specifically used to maintain rolling stock. It contributes to improved railway safety and riding comfort
- ❑ **No. 1 share in Japan** for underfloor wheel lathes
- ❑ To start domestic production, we had a licensing agreement with Hegenscheidt which manufactured the first wheel lathe in the world and has an excellent delivery record around the world. The design, parts and software are all original

Automatic machinery

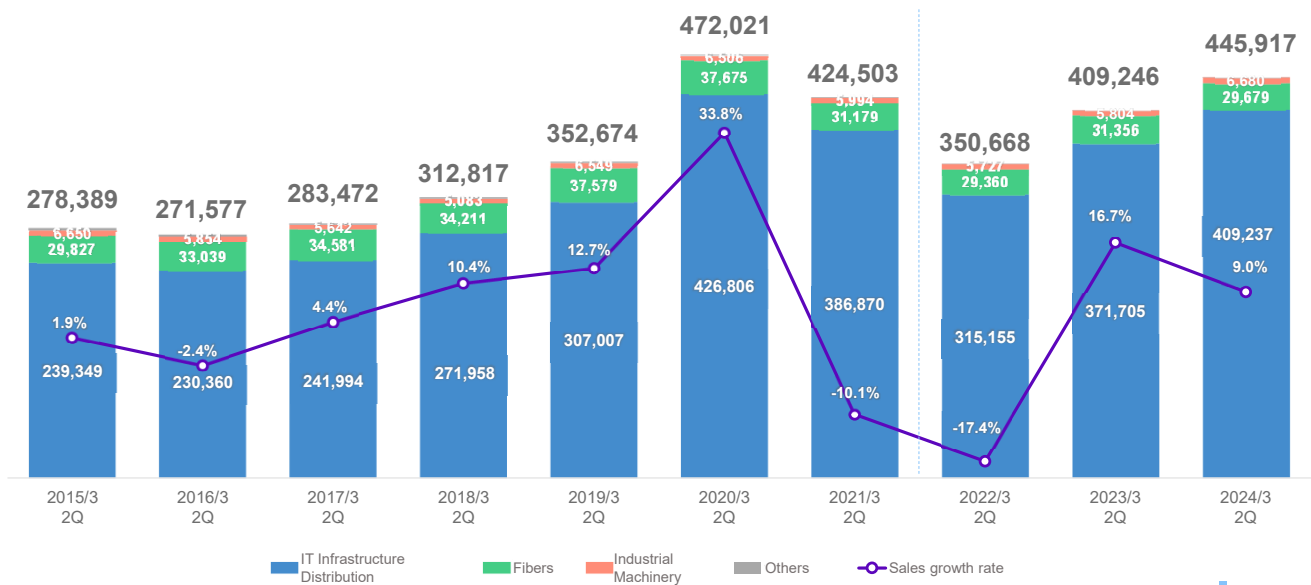


- ❑ We manufacture a wide range of automatic machinery including cartoners (cartoning machine), intermediate packaging machines for stacking and packaging products in film and corrugated cardboard casers (The picture on the left is a horizontal continuous cartoner)
- ❑ The strengths include technologies and creativity that allow us to flexibly respond to the needs of packaging processes in rapidly changing industries such as foods with short life cycles and remarkable diversification and pharmaceuticals with increasingly strict manufacturing standards

Consolidated Net Sales (2Q Cumulative)

(Million yen)

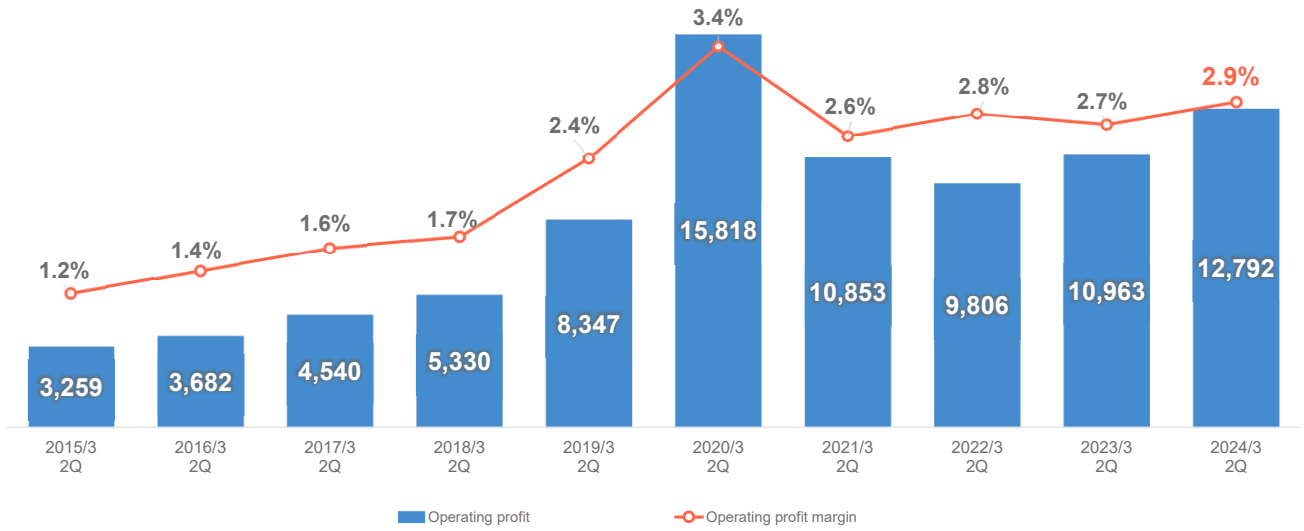
Application of the Accounting Standard for Revenue Recognition



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Consolidated Operating Profit (2Q Cumulative)

(Million yen)

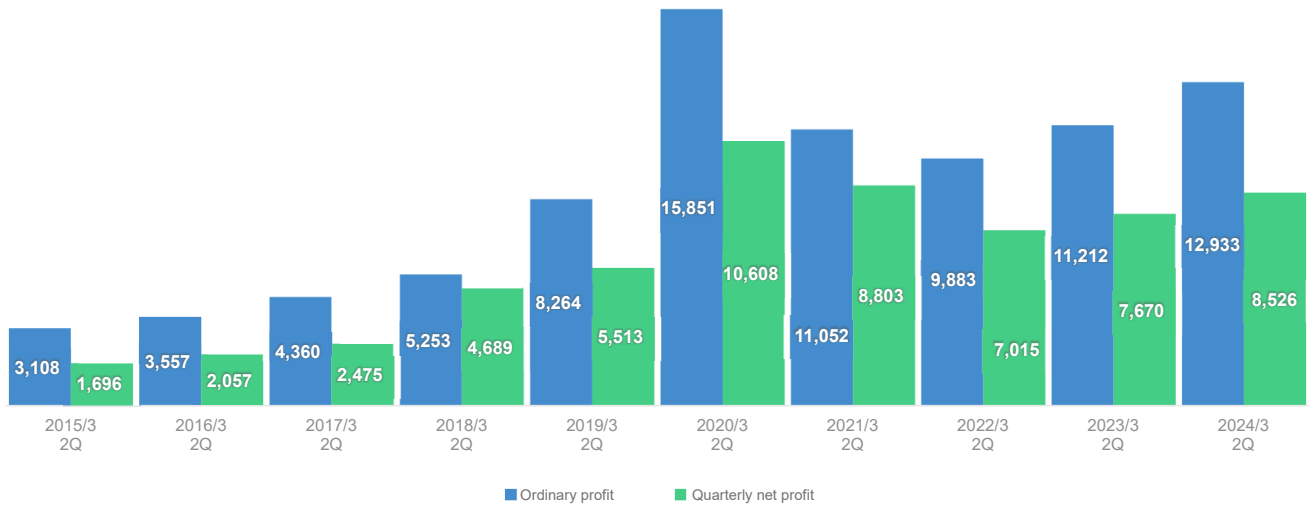


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Consolidated Ordinary Profit and Consolidated Quarterly Net Profit (2Q Cumulative)



(Million yen)

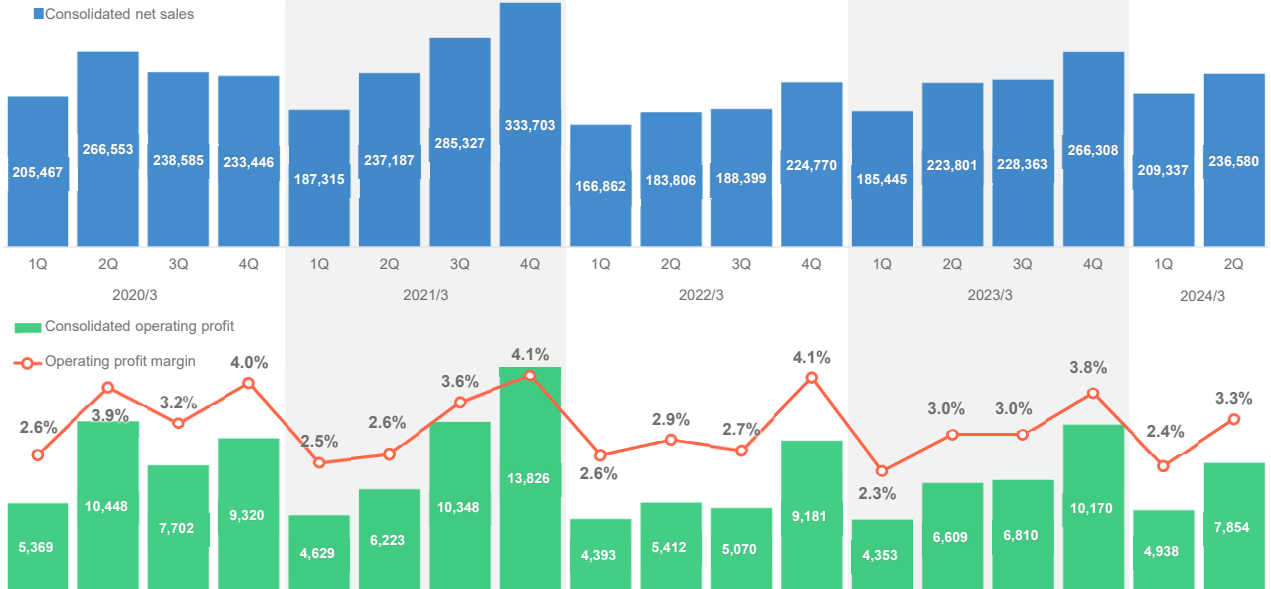


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Quarterly Results



(Million yen)

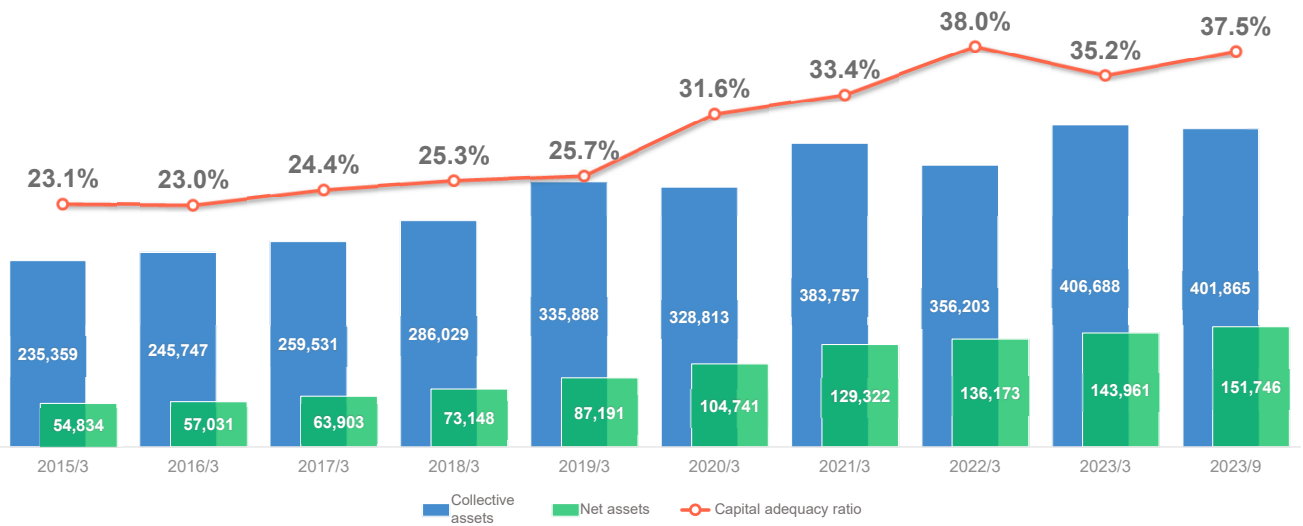


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Consolidated Total Assets, Consolidated Net Assets and Capital Adequacy Ratio



(Million yen)

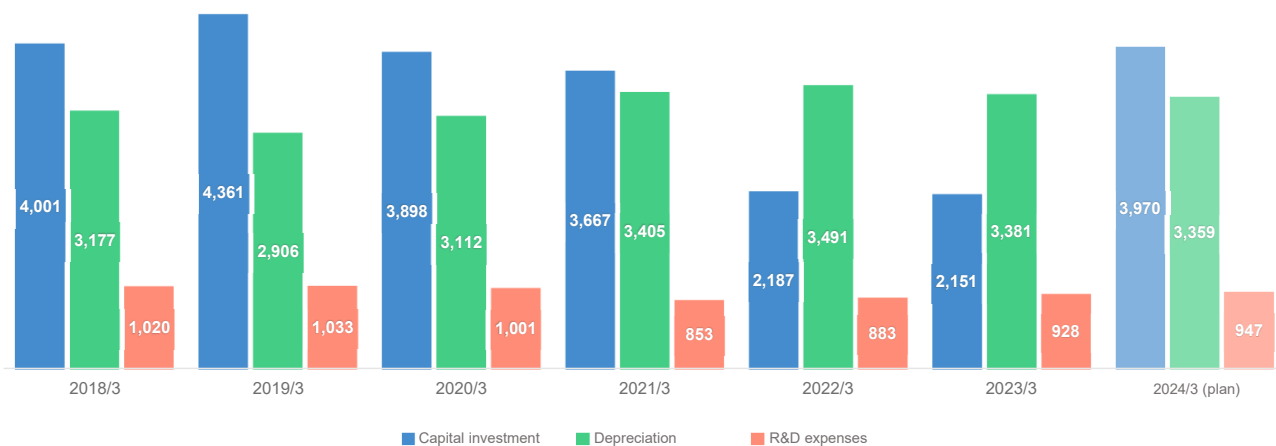


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Capital Investment, Depreciation and R&D Expenses



(Million yen)



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Daiwabo Group List

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History

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