# 2nd Quarter of the Fiscal Year Ending March 2022 Financial Results Materials

Daiwabo Holdings Co.,Ltd.

November 9, 2021

(Stock code: **3107**)

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

I ‘d like to explain about the financial results for the 2nd quarter of the fiscal year ending March 2022. I am Nishimura, CEO of Daiwabo Holdings.

## Flow of Explanation

1. **Settlement of Accounts for the 2nd Quarter of the Fiscal Year Ending March 2022**
2. **Business Outlook for the Full Term of the Fiscal Year Ending March 2022**

[References]

- Medium-Term Management Plan
- Corporate Profile
- Charts for Performance Trend





I'd like to 1st update you on the 2nd quarter results and then explain the outlook for the full year.

## Daiwabo Holdings Co., Ltd.

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| | | |
|---|---|---|
| **Head Office** | 6-8, Kyutaromachi 3-chome, Chuo-ku, Osaka, 541-0056 | |
| **Established** | Established as Daiwa Boseki<br>Establishment of Daiwabo Holdings Co., Ltd. | April 1, 1941<br>July 1, 2009 |
| **Consolidated employees** | 5,683 (As of March 31, 2021) | |
| **Capital** | ¥21,696,744,900 | |
| **Stock exchange listing** | Listed on the First Section of the Tokyo Stock Exchange Stock code: **3107** / Industry: **Wholesale** < **Constituent stock of the JPX Nikkei Index 400** > | |
| **Business Profile** | **IT Infrastructure Distribution Business**<br>[Core company] DIS DAIWABO INFORMATION SYSTEM CO., LTD. | Sales of computers, peripherals and software, and logistics services<br>Installation and maintenance of and repair services for computer equipment |
| | **Fiber Business**<br>[Core company] Daiwa Spinning | Manufacture and sales of fiber materials for hygienic materials, nonwoven fabrics, industrial materials, textiles for apparel and living products and finished products |
| | **Industrial Machinery Business**<br>[Core company] O-M ltd. | Manufacture and sales of machine tools, automatic machinery and casting products |
| | Other Businesses | Insurance Agency Business, Engineering Business |



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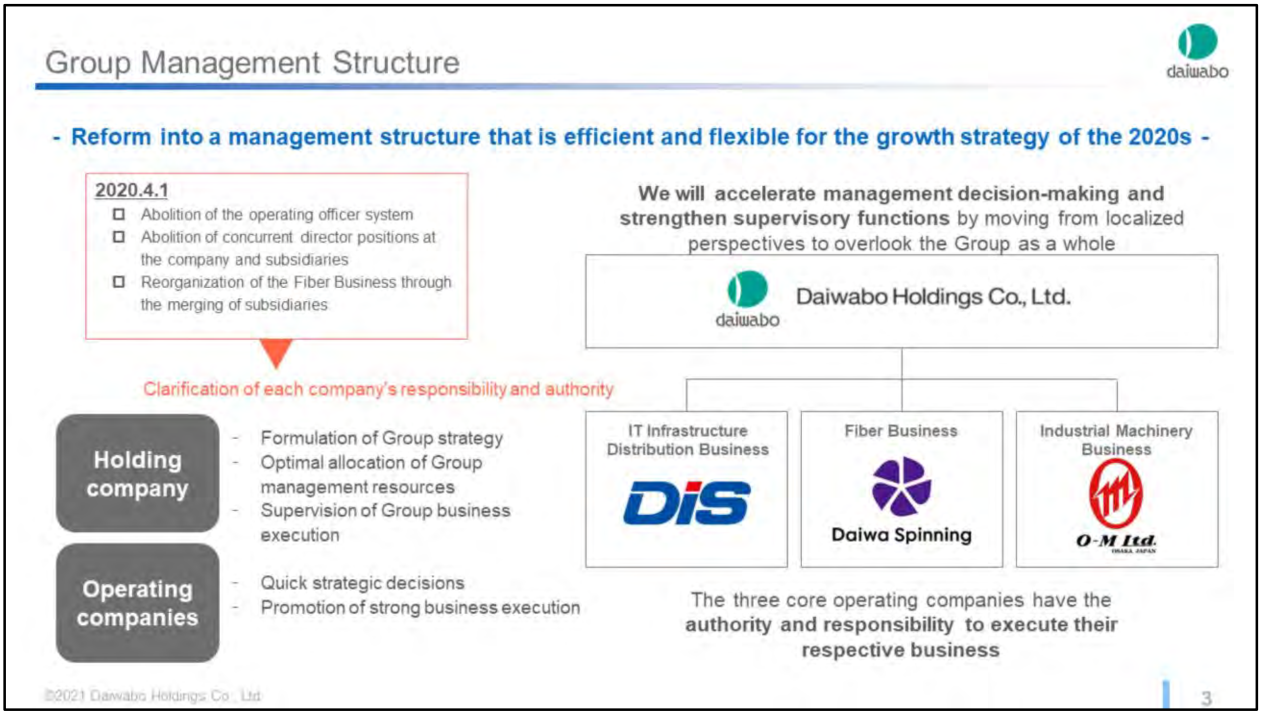
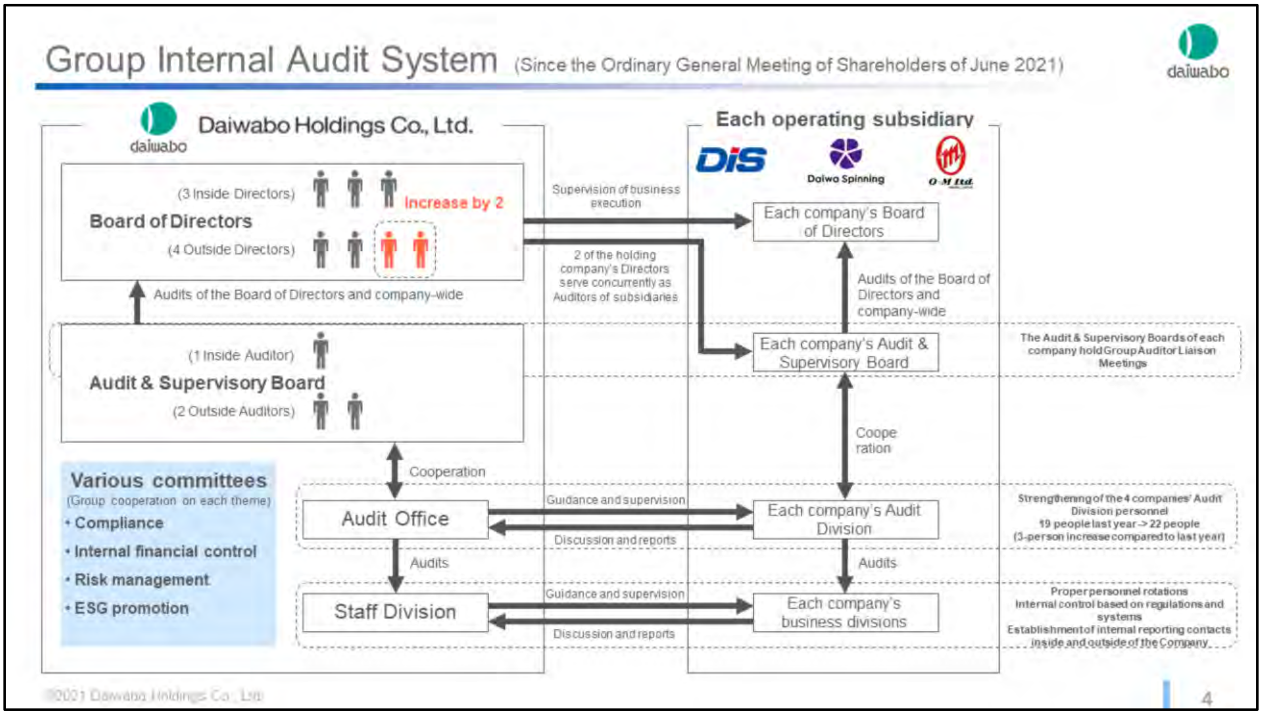
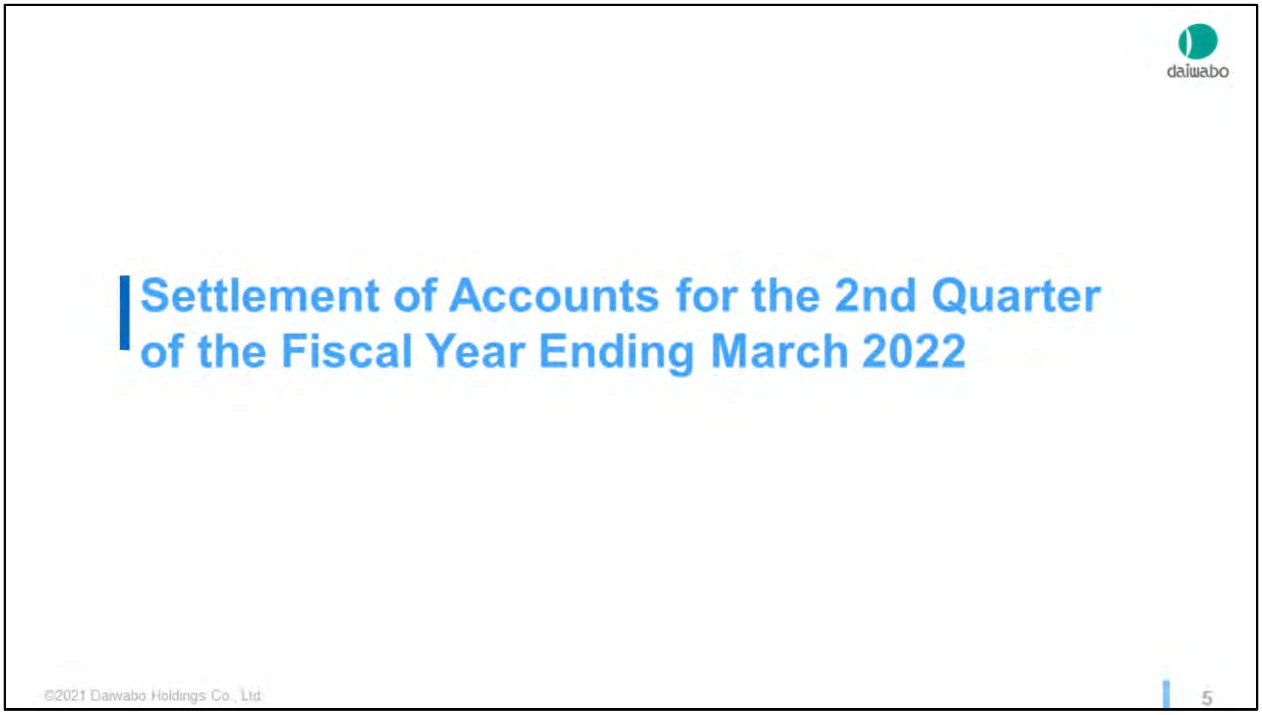
This is the overview of our company. Daiwabo Holdings is a group of companies with 3 businesses of IT infrastructure Distribution Business, Fiber Business and Industrial Machinery Business. Sales of Daiwabo Information System, a trading company specializing in IT related devices, accounts for more than 90% of our sales and our sector category at the Tokyo Stock Exchange is wholesale.




This is a slide on our group management structure. We performed a major review of our structure last April. By making the responsibilities and authorities of each company clearer, the 3 companies of Daiwabo Information System, Daiwabo Company and O-M are facilitating prompt strategic decisions with strong business execution as the core of each of the businesses. Daiwabo Holdings is strengthening its supervisory function, for example by formulating group strategies from a broader perspective.

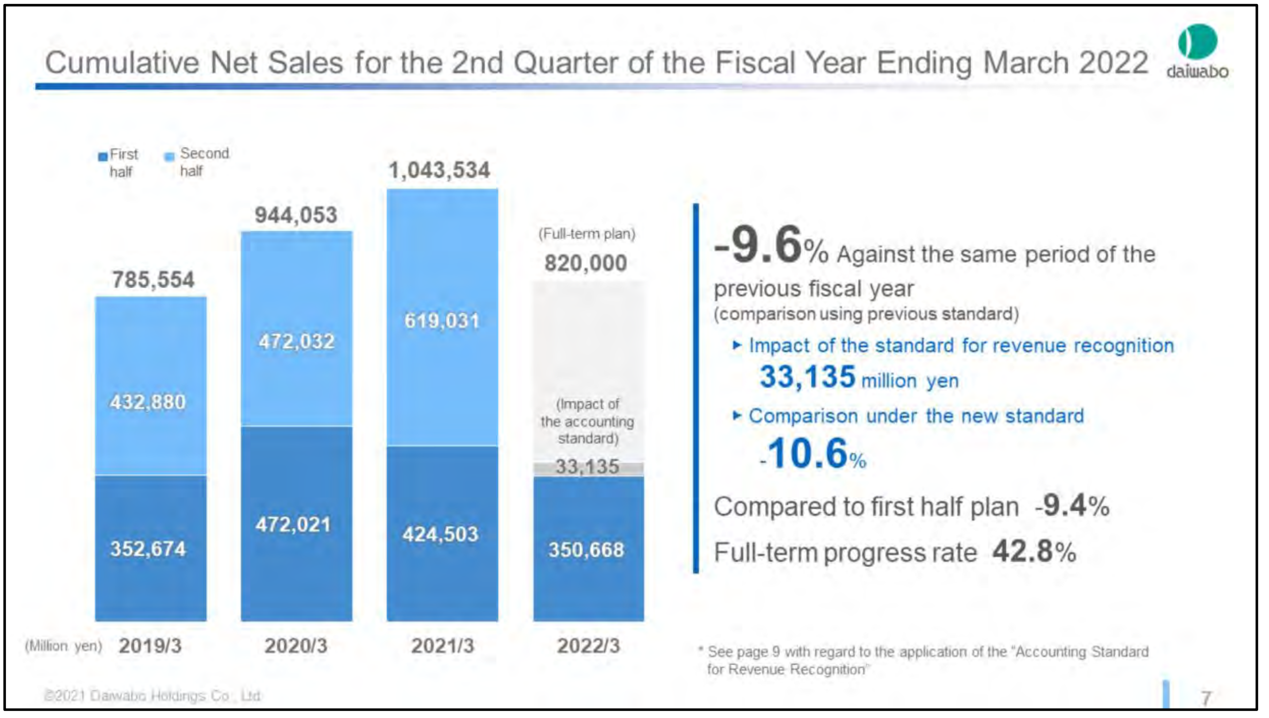



This is the internal audit structure of the group. We increased the number of outside directors by 2 at the general shareholders meeting held in June this year. We now have 3 inside board of directors and 4 outside directors and are enhancing our governance structure. Mr. Tatsumi, Managing Director and I, Nishimura, are also Audit and Supervisory Board Members of the 3 operating subsidiaries. Audit Divisions and Business Divisions are cooperating amongst the group to further enhance corporate governance.

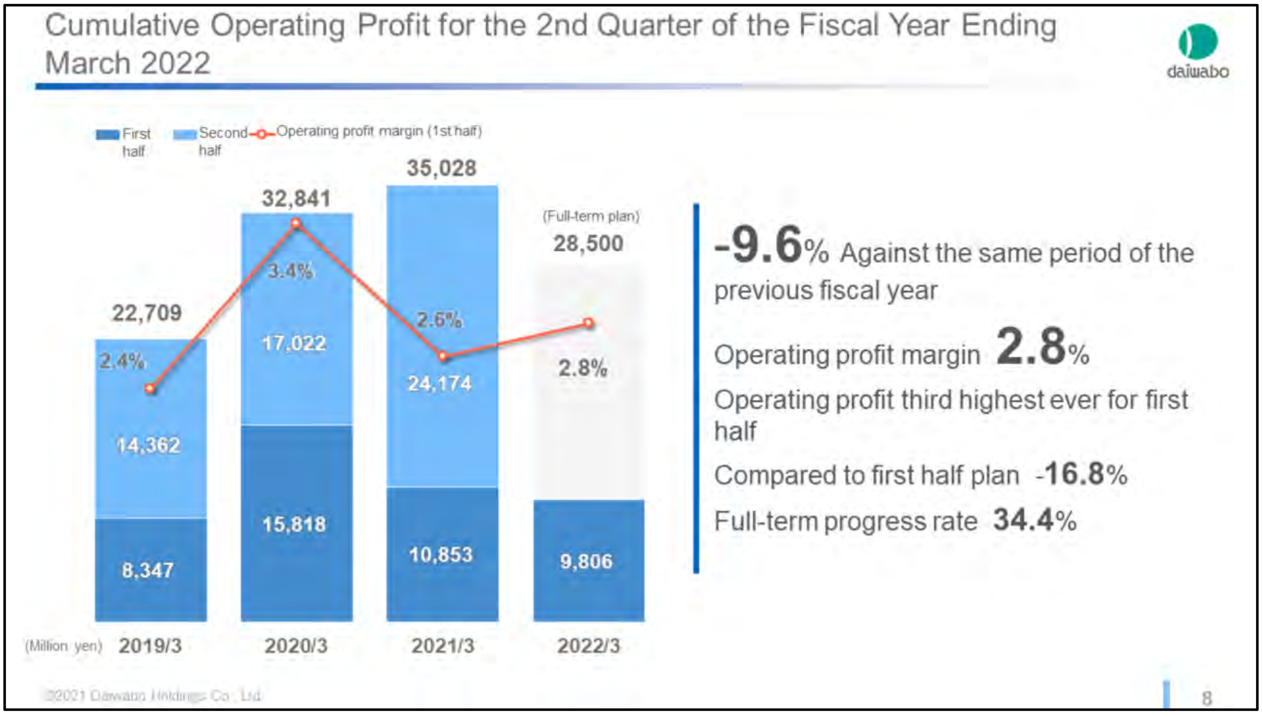



Now, I'd like to update you on the 2nd quarter results for the fiscal year ending March. 2022.


In addition to the backlash from a large demand in 2019 and 2020, there were uncertainties in the market, and as a result, both sales and profits declined. However, as a 1st half, we were able to achieve the 3rd highest profit level in our history. I will explain about each business later.




This slide shows the consolidated net sales trend. The 1st half net sales were 350.6 billion yen. Comparing based on the conventional standard excluding the impact of the application of the revenue recognition standard, it is a decline by 9.6% year on year. If we compare based on the new standard it is a decline by 10.6%.




This shows the trend of operating profits. The 1st half was 9.8 billion yen a 9.6% decline year on year. This is the 3rd highest record in the 1st half, following last year and the year before with special demands. Operating profit margin was 2.8%.

# Application of the Accounting Standard for Revenue Recognition

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

| (Million yen) | | 2021/3 2Q | 2022/3 2Q | Change |
|---|---|---|---|---|
| Net sales | [1] Old standard | 424,503 | 383,804 | (40,699) (9.6%) |
| | [2] New standard | - | 350,668 | |
| | [2] - [1] | - | (33,135) | |
| Operating profit | | 10,853 | 9,806 | (1,046) (9.6%) |
| Operating profit margin | [1] Old standard | 2.6% | 2.6% | |
| | [2] New standard | | 2.8% | |

< 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)


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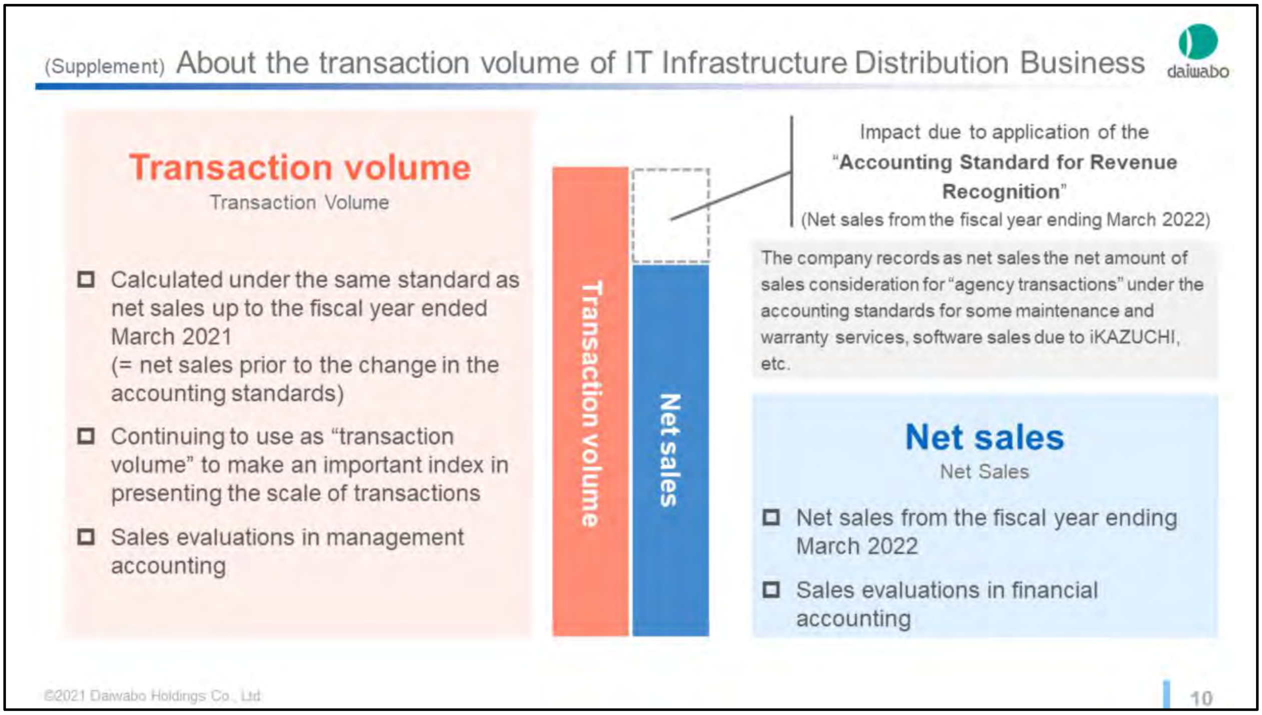
I'd like to explain about the impact of the Accounting Standard for Revenue Recognition which was applied from this fiscal year. There is a big impact on how we post sales for maintenance and warranty services and recurring revenue of software in IT Infrastructure Distribution Business. As these are considered agent transactions in accounting, the way the revenue is recognized changed.

To be specific, we have been posting the total amount of sales before, but now, we are to post the net amount of sales after deducting the procurement costs. With this change, net sales in the 1st half declined by 33.1 billion yen. If we compare based on the conventional accounting standard, it is a drop by 9.6% year on year from 424.5 billion yen to 383.8 billion yen. The impact on operating profit is small and operating profit margin improved by 0.2%.




I'd now like to supplement about transaction volume in IT Infrastructure Distribution Business. Net sales in the conventional accounting standard are important indicators since they show the size of the transactions. As such, we will continue to utilize this concept by using the word transaction volume to replace the conventional net sales. From this fiscal year onwards, net sales means subtracting the amount impacted by the accounting standard for revenue recognition from transaction volume.

Summary of the Consolidated Settlement of Accounts for the Cumulative 2nd Quarter of the Fiscal Year Ending March 2022

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| (Million yen) | 2021/3 2Q | 2022/3 2Q | Change | Compared to previous term | Full-term forecast | Progress rate |
|---|---|---|---|---|---|---|
| Net sales | 424,503 | **350,668** | — | — | 820,000 | 42.8% |
| Operating profit | 10,853 | **9,806** | (1,046) | (9.6%) | 28,500 | 34.4% |
| Ordinary profit | 11,052 | **9,883** | (1,168) | (10.6%) | 28,500 | 34.7% |
| Quarterly profit attributable to owners of parent | 8,803 | **7,015** | (1,788) | (20.3%) | 18,500 | 37.9% |
| Quarterly net profit per share (yen) | 91.57 | 73.36 | | | | |

| (Million yen) | 2021/3 | 2021/9 | Change | Major reasons for change |
|---|---|---|---|---|
| Collective assets | 383,757 | **321,702** | (62,055) | Decrease in accounts receivables, etc. |
| Net assets | 129,322 | **128,548** | (773) | Increase of treasury stock |
| Capital adequacy ratio | 33.4% | **39.6%** | | |





This is the overview of the consolidated financial results. Ordinary profit was 9billion 883million yen, a decrease by 1billion 168million yen, or 10.6% year on year. Net profit was 7billion 15million yen, a decrease by 1billion 788miilion yen, or 20.3%. It is a decrease in both sales and profits but it is the 3rd highest profit level for the 1st half.

EPS was 73.36 yen. Total assets decreased by 62billion 55million yen versus the end of last fiscal year to 321billion 702million yen due to a decrease in accounts receivables and others. Net assets were 128billion 548million yen, a decrease of 773million yen due to an increase in treasury stock. Capital equity ratio was 39.6%, an increase of 6.2% compared to the end of the last fiscal year.

## Operating Results by Segment for the Cumulative 2nd Quarter of the Fiscal Year Ending March 2022

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| (Million yen) | | 2021/3 2Q | 2022/3 2Q | Change | Compared to previous term |
|---|---|---|---|---|---|
| Net sales | IT Infrastructure Distribution | 386,870 | **315,155** | – | – |
| | Fibers | 31,179 | **29,360** | (1,818) | (5.8%) |
| | Industrial Machinery | 5,994 | **5,727** | (266) | (4.4%) |
| | Others | 459 | **424** | (35) | (7.7%) |
| | Total | 424,503 | **350,668** | – | – |
| Operating profit | IT Infrastructure Distribution | 10,749 | **8,556** | (2,193) | (20.4%) |
| | Fibers | (194) | **957** | +1,152 | – |
| | Industrial Machinery | 375 | **302** | (73) | (19.5%) |
| | Others | (77) | **(12)** | +65 | – |
| | (Adjustment) | 0 | 1 | 1 | |
| | Total | 10,853 | **9,806** | (1,046) | (9.6%) |



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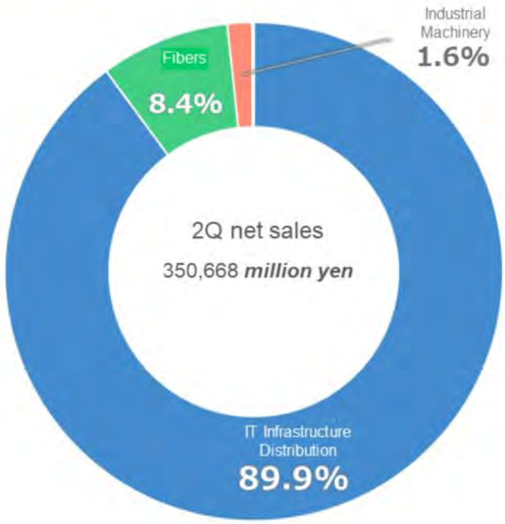
This is the performance by segment for the 1st half. Accounting standard for revenue recognition was applied to IT Infrastructure Distribution Business.

# Segment Mix




### Percentage of net sales

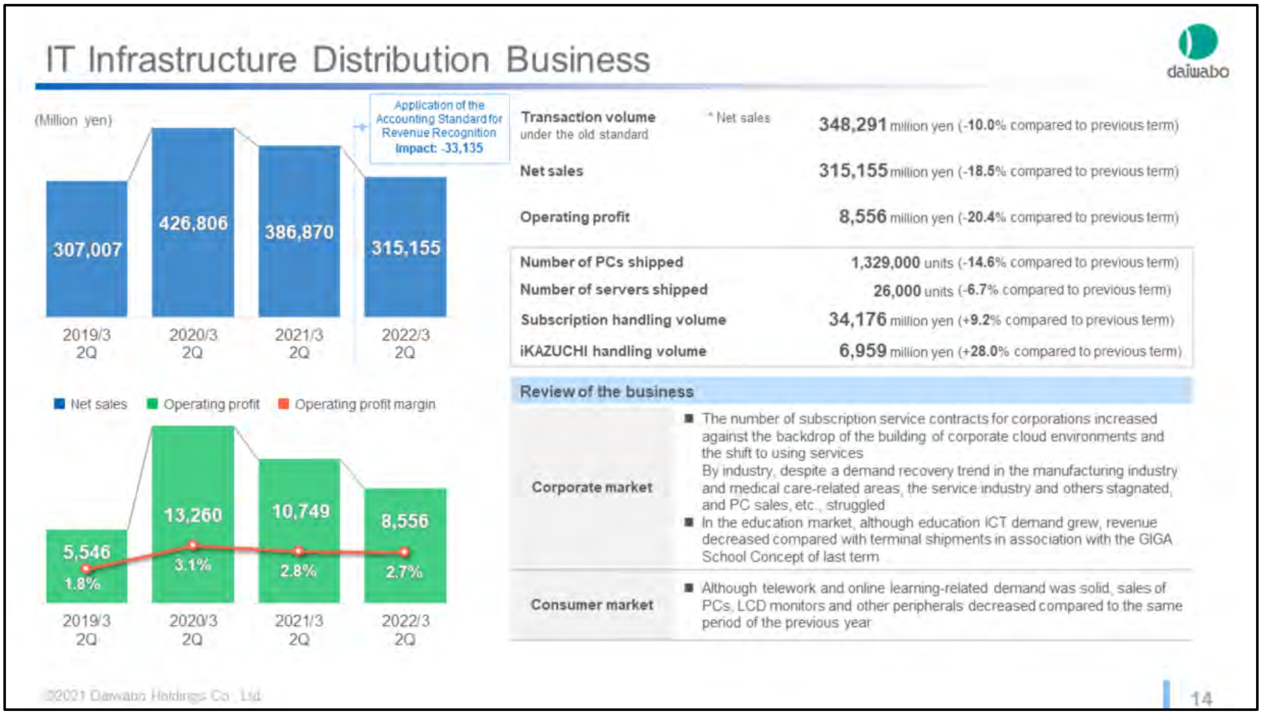
| | 2021/3 2Q | 2022/3 2Q |
|---|---|---|
| IT Infrastructure Distribution | 91.1% | **89.9%** |
| Fibers | 7.3% | **8.4%** |
| Industrial Machinery | 1.4% | **1.6%** |

### Percentage of operating profit

| | 2021/3 2Q | 2022/3 2Q |
|---|---|---|
| IT Infrastructure Distribution | 99.0% | **87.3%** |
| Fibers | (1.8%) | **9.8%** |
| Industrial Machinery | 3.5% | **3.1%** |

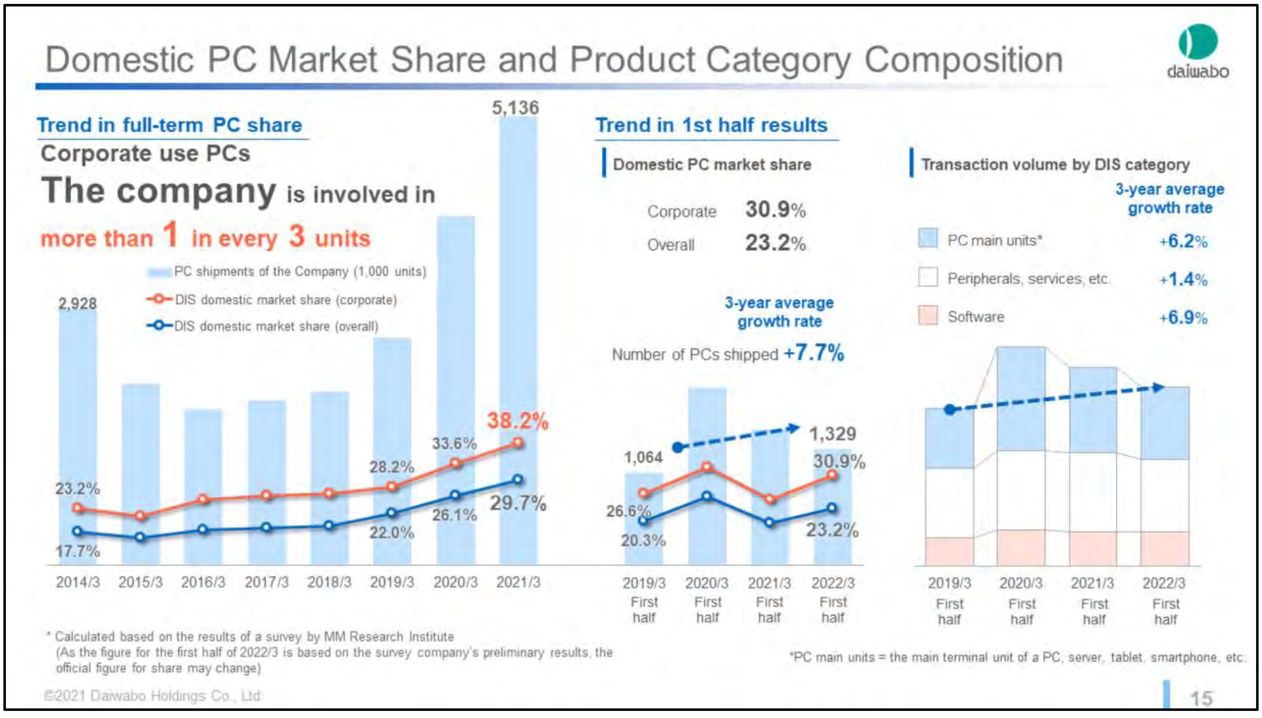
 

This is the breakdown of net sales and operating profit by segment. The weight of IT Infrastructure Distribution Business accounts for approximately 90%.



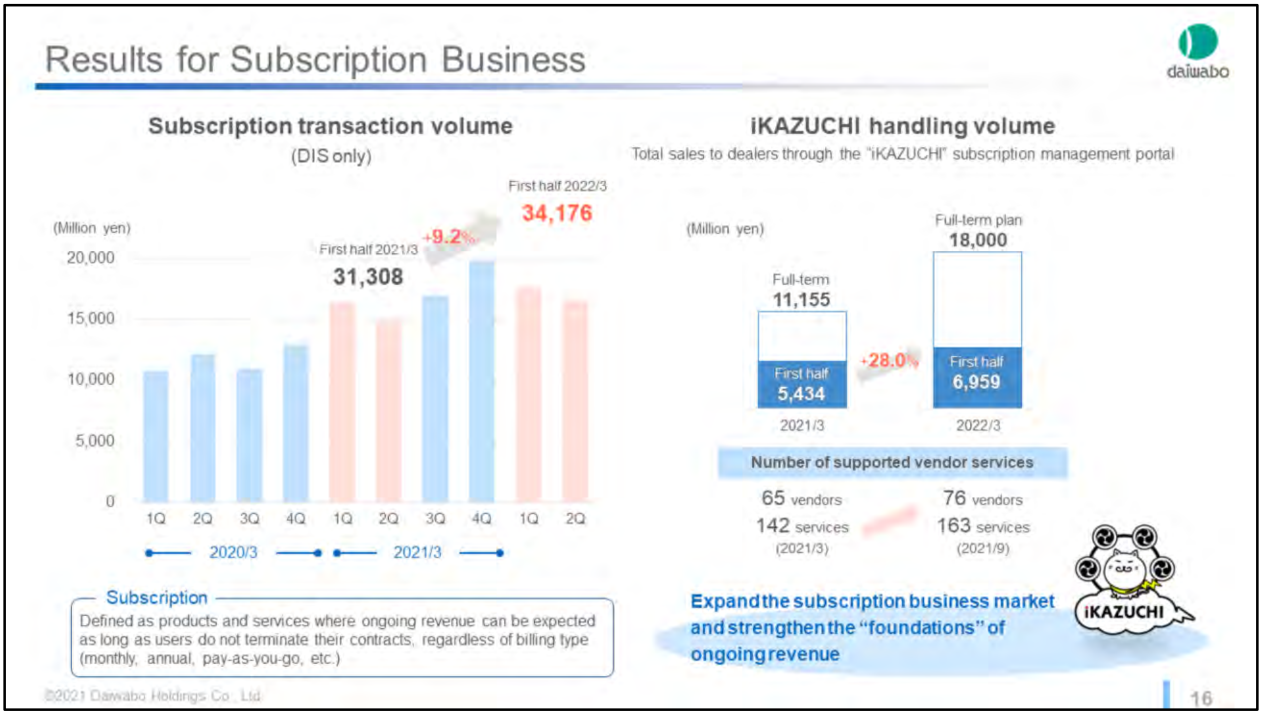

Let me explain each segment, starting with IT Infrastructure Distribution Business. Net sales decreased by 18.5% year on year but if we apply the conventional accounting standard and compare the transaction volume, it is a decrease by 10%. In the corporate market, small and medium sized companies showed a tendency to continue to control IT spending, but spending to build cloud environment and for subscription services increased.

By sector, we see a demand recovery trend in manufacturing and medical related sectors but service sector and others were still slow and our sales, mainly of PCs were stagnant. In the education market also, our sales declined compared to the last year when we had terminal shipments due to GIGA School concept. In consumer market, although there is solid demand related to teleworking and online learning, there is a decrease in sales of PCs, LCD monitors and other peripheral devices comparing year on year.




This slide shows our market share and sales by category in domestic PC shipment volume. Please take a look at the graph in the middle. Our PC market share in the 1st half was 23.2% in total, but if we look at the corporate market alone, it was 30.9%. We increased our share in both, year on year.

The number of PCs shipped were the 3rd record high at 1million 329 thousand units. Despite the shortage of supply, we were able to exert our strength as a multi-vender to procure the products. Despite the backlash from a surge in demand until the last term, our 3 year avenue CAGR grew in all categories steadily. We were able to capture the needs and performed strongly, especially in the software domain, where we are focusing on subscription sales.




This is our performance for the subscription business at DIS. Subscription transaction volume in the 1st half increased by 9.2% year on year to 34.1billion yen. Teleworking penetrated rapidly in the 1st half of last year and our cloud service contracts increased and we are still continuing to grow. Total amount of sales to our sales partners through DIS's original management portal iKAZUCHI were 6.9billion yen in the 1st half, an increase of 28% year on year. Number of vendors and services are also increasing steadily.

## Fiber Business


**Net sales** 29,360 million yen (-5.8% compared to previous term)

**Operating profit** 957 million yen (+1,152 million yen compared to previous term)

**Review of the business**

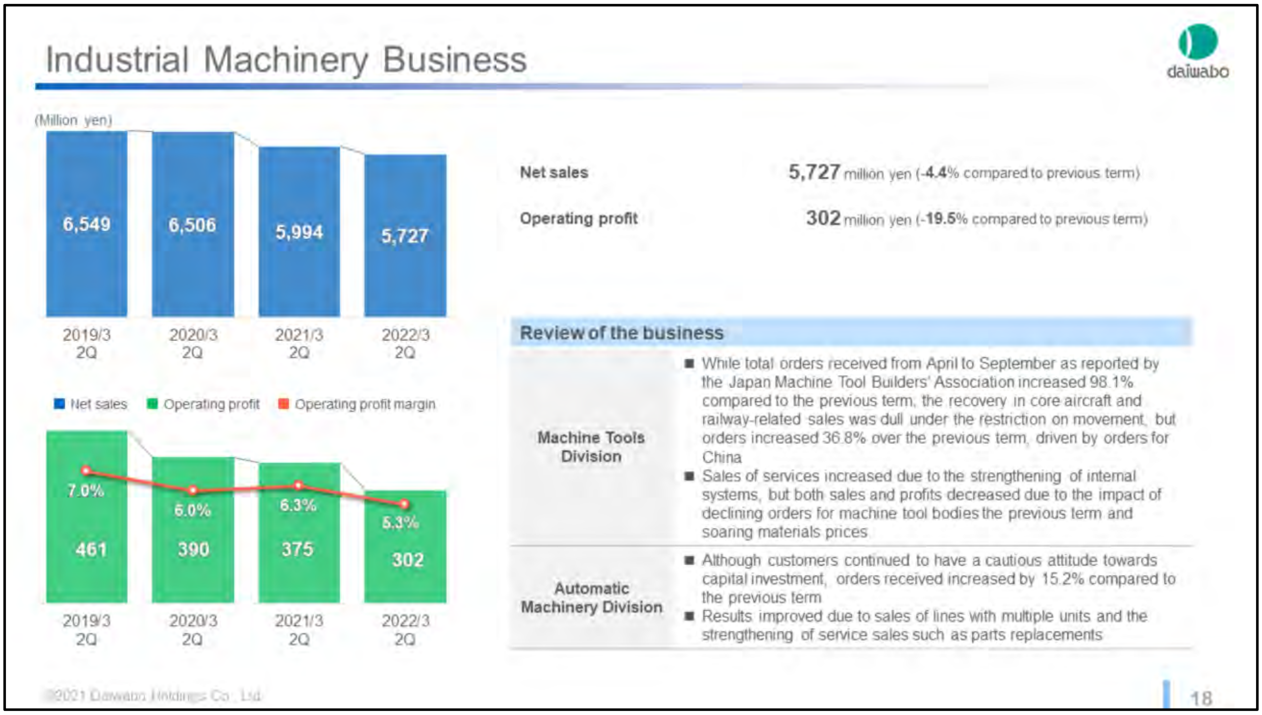
| | |
|---|---|
| **Synthetic Fibers and Rayon Divisions** | ■ Rayon with a low environmental load was strong, but sales decreased due to the rebound from demand to last term for non-woven fabric for masks and sterilization sheets |
| **Industrial Material Division** | ■ Although demand for cartridge filters for electronic parts manufacturers was vigorous, sales continued to stagnate due to the impact of the suspension of various events and a decrease in construction work |
| **Clothing Products Division** | ■ Although innerwear orders for America increased, domestically, sales of casual clothes struggled because of the prolonged impact of self-restraint on going out and store closures |

[Reference] Reflecting the effects of inappropriate transactions in 2Q of the previous term (disclosed 2020/12/11)

| | 2021/3 2Q | | 2022/3 2Q |
|---|---|---|---|
| | Impact | When impact is excluded | Compared to previous term when impact is excluded |
| Net sales | -640 million yen | 31,819 million yen | -7.7% |
| Operating profit | -1,994 million yen | 1,800 million yen | -46.7% |




Next, I'd like to talk about our Fiber Business. In Synthetic Fibers and Rayon Division, rayon materials, which is low environmental burden, performed strongly. On the other hand, sales of non-woven cloth for masks and disinfection sheets fell, due to the backlash of strong demand in the last fiscal year. In Industrial Materials Division, despite the strong demand for cartridge filters for electronic components manufacturers, sales continued to stagnate due to cancellation of events and decrease in construction projects. In Clothing Products Division, we saw an increase in orders for the US innerwear, but casual clothing continued to struggle from the impact of self-restraint on going out.




This is Industrial Machinery Business. In Machine Tool Division, there is a delay in recovery of our core aircraft and railroad sectors, but capital investments expanded in China, driving increase in orders. We also focused on sales of services by strengthening internal structure but both sales and profits declined. In Automatic Machinery Division, our clients continued to maintain cautious stance in making capital investments, but we enhanced sales for multiple lines and services, and as a result improved our performance.

## Consolidated Balance Sheet for the 2nd Quarter of the Fiscal Year Ending March 2022 (Summary of Accounts P4-5)

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| (Million yen) | 2021/3 | 2021/9 | Change |
|---|---|---|---|
| **Current assets** | 331,461 | **269,809** | (61,651) |
| Cash and deposits | 32,058 | **43,911** | +11,852 |
| Notes and accounts receivable, and contract assets (*) | 246,897 | **165,568** | (81,328) |
| Goods and products | 32,580 | **43,587** | +11,007 |
| **Property, plant and equipment** | 39,172 | **39,109** | (63) |
| **Intangible fixed assets** | 2,696 | **2,563** | (132) |
| **Investments and other assets** | 10,426 | **10,219** | (206) |
| **Total assets** | 383,757 | **321,702** | (62,055) |

| | 2021/3 | 2021/9 | Change |
|---|---|---|---|
| **Current liabilities** | 230,519 | **167,738** | (62,780) |
| Notes payable and accounts payable | 188,483 | **137,249** | (51,233) |
| Short-term loans payable | 15,255 | **11,740** | (3,515) |
| **Non-current liabilities** | 23,916 | **25,414** | +1,498 |
| Long-term loans payable | 12,065 | **12,905** | +839 |
| **Total liabilities** | 254,435 | **193,153** | (61,281) |
| **Total net assets** | 129,322 | **128,548** | (773) |
| Treasury stock | (123) | **(2,123)** | (2,000) |
| **Total liabilities and net assets** | 383,757 | **321,702** | (62,055) |

* Shown in the previous term as "Notes and accounts receivable"

| | | | | | |
|---|---|---|---|---|---|
| Notes and accounts receivable, and contract assets | 246,897 | -> | **165,568** | (81,328) | Collection of DIS accounts receivable |
| Notes payable and accounts payable | 188,483 | -> | **137,249** | (51,233) | Decrease in DIS accounts payable |
| Total loans | 27,321 | -> | **24,645** | (2,675) | |




This is the consolidated balance sheet. With the collection of accounts receivables from the previous term including from large projects for GIGA School concept, cash and deposits increased by 11.8billion yen to 43.9 billion yen from the end of last fiscal year. Notes and accounts receivable decreased by 81.3 billion yen to 165.5 billion yen. Goods and products increased by 11billion yen to 43.5billion yen as we are procuring inventories strategically. Loans payable decreased by 2.6billion yen from the end of the last fiscal year to 24.6billion yen. We acquired 2billion yen of our own shares, resulting in a decrease in net assets by 700million yen to 128.5billion yen.

## Consolidated Profit Statement for the 2nd Quarter of the Fiscal Year Ending March 2022 (Summary of Accounts P6)

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| (Million yen) | 2021/3 2Q | | 2022/3 2Q | | Change | Compared to previous term |
|---|---|---|---|---|---|---|
| | Results | Percentage | Results | Percentage | | |
| **Net sales** | 424,503 | | **350,668** | | (73,834) | (17.4%) |
| Gross profit | 33,233 | 7.8% | **29,699** | **8.5%** | | |
| Selling, general and administrative expenses | 22,379 | 5.3% | **19,893** | **5.7%** | | |
| **Operating profit** | 10,853 | 2.6% | **9,806** | **2.8%** | (1,046) | (9.6%) |
| **Ordinary profit** | 11,052 | 2.6% | **9,883** | **2.8%** | (1,168) | (10.6%) |
| Extraordinary profit | 1,446 * | | **342** | | | |
| Extraordinary loss | 631 * | | **0** | | | |
| **Quarterly profit attributable to owners of parent** | 8,803 | 2.1% | **7,015** | **2.0%** | (1,788) | (20.3%) |

| | |
|---|---|
| * Extraordinary profit in previous term | Gain on sale of DIS Distribution Center (**754** million yen), compensation for transfer of overseas Fiber Business plants (**645** million yen) |
| * Extraordinary loss in previous term | Impairment loss for idle land (**513** million yen) |





This is the P+L. I already talked about net sales and each profit lines in the summary. Gross profit improved by 0.7% year on year from 7.8% to 8.5 %. SG&A expenses decreased by 19.8 billion yen mainly around sales expenses but SG&A ratio increased by 0.4% year on year to 5.7%.


Now, I'd like to talk about the full year outlook.

## Business Forecast for the Full Term of the Fiscal Year Ending March 2022

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| (Million yen) | 2021/3 (Results) | | 2022/3 (Forecast) | | Change (*) | Compared to previous term (*) |
|---|---|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage | | |
| **Net sales** | 1,043,534 | | 820,000 | | (223,534) | (21.4%) |
| IT Infrastructure Distribution | 969,748 | | 742,000 | | (227,748) | (23.5%) |
| Fibers | 61,033 | | 64,700 | | +3,666 | +6.0% |
| Industrial Machinery | 11,582 | | 11,100 | | (482) | (4.2%) |
| **Operating profit** | 35,028 | 3.4% | 28,500 | 3.5% | (6,531) | (18.6%) |
| IT Infrastructure Distribution | 33,226 | 3.4% | 24,400 | 3.3% | (8,826) | (26.6%) |
| Fibers | 1,350 | 2.2% | 3,450 | 5.3% | +2,099 | +155.5% |
| Industrial Machinery | 537 | 4.6% | 640 | 5.8% | +102 | +19.0% |
| **Ordinary profit** | 35,781 | 3.4% | 28,500 | 3.5% | (7,281) | (20.4%) |
| Profit attributable to owners of parent | 25,715 | 2.5% | 18,500 | 2.3% | (7,215) | (28.1%) |

* Because the "Accounting Standard for Revenue Recognition" will apply from March 2022, we have made forecasts based on this standard. Changes and comparisons with the previous term are included purely as comparative reference values without considering the change in the accounting standard.



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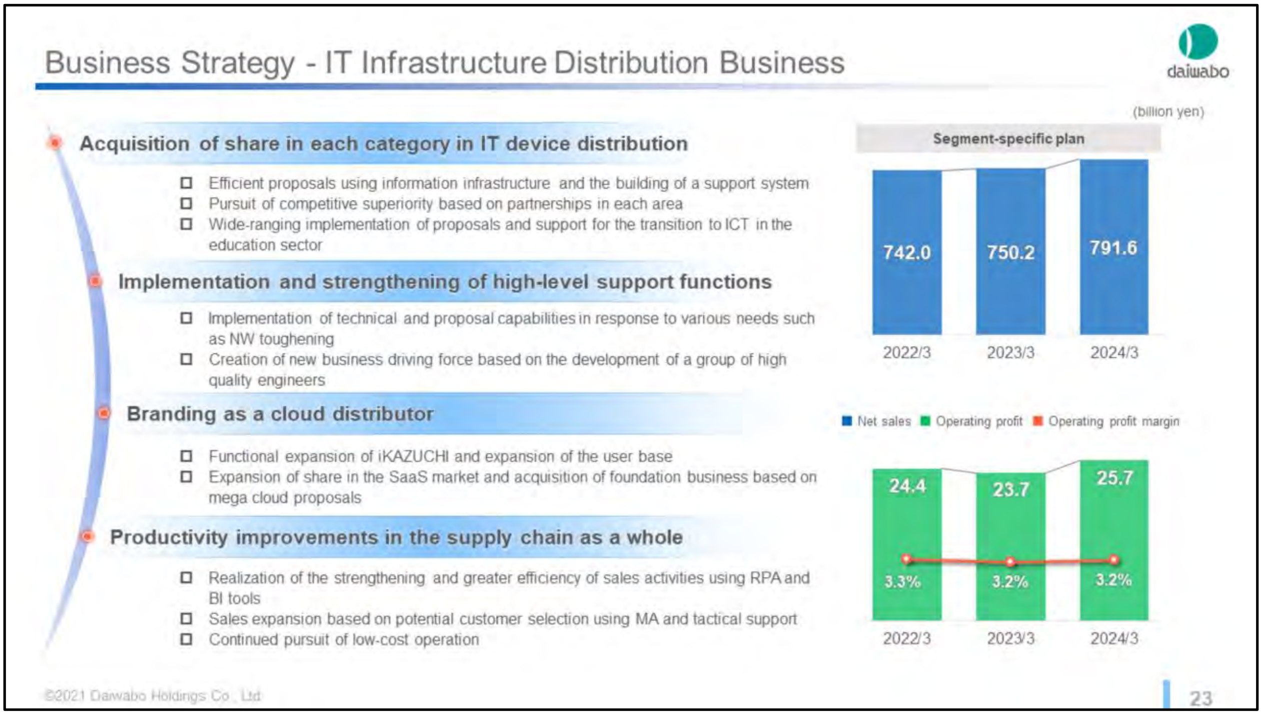
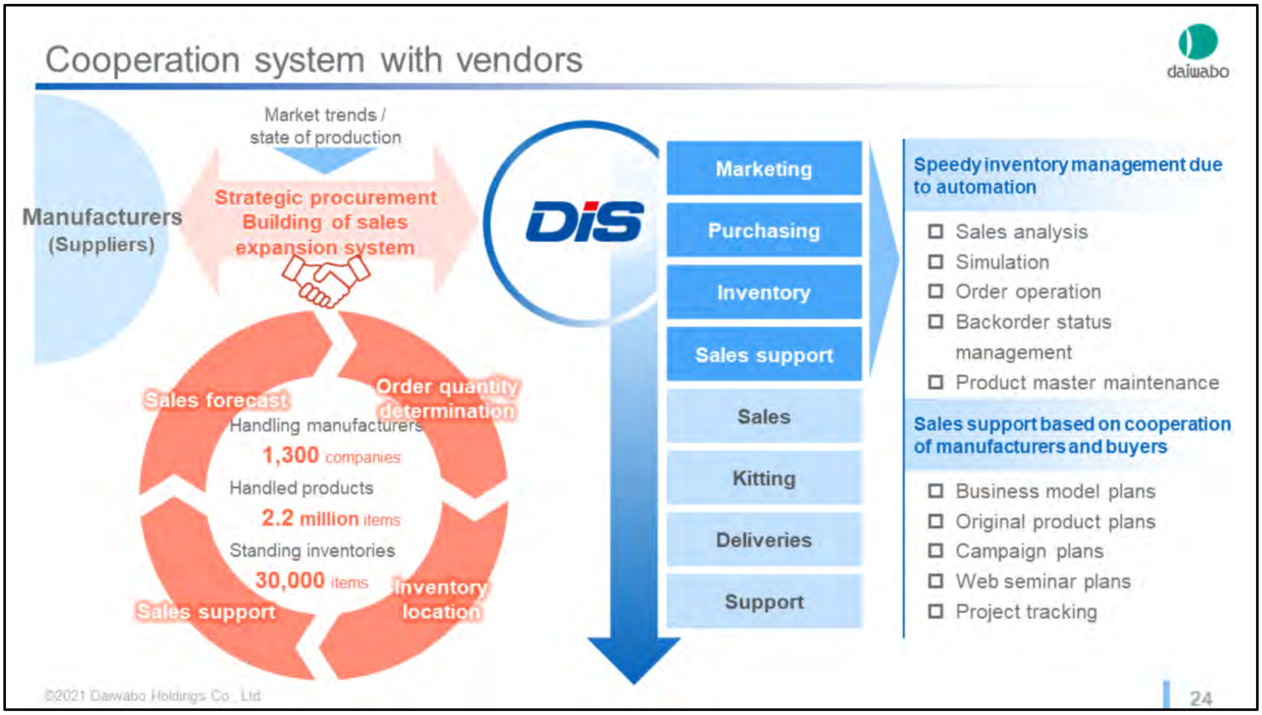
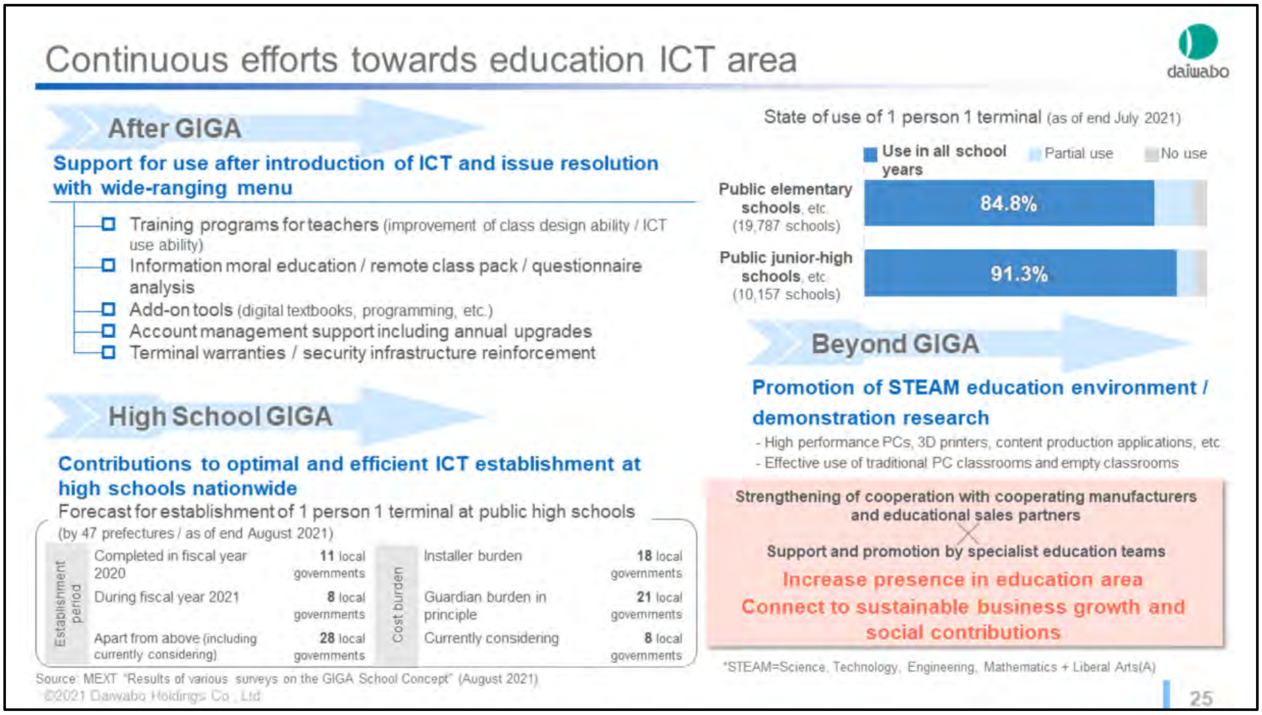
There are no changes to the forecast we announced in May. In IT Infrastructure Distribution Business, we captured heightened demand triggered by GIGA School concept and penetration of teleworking, and for the 1st time, exceeded net sales of 1 trillion yen, achieving our record high. Especially in the education market, ICT environment improved significantly including network and software, other than 1 terminal per elementary and junior high school students. That contributed to increase in our sales by more than 200 billion yen. However, for this fiscal year, in addition to the backlash of demand from last year, we also incorporated the impact of accounting standard for revenue recognition in our forecast.




Next, I'd like to again talk about strategies of each business in our medium term management plan which started this fiscal year. For our main business of IT Infrastructure Distribution, because of the rebound from the concentrated demand in terminals until last fiscal year and the impact of accounting standard for revenue recognition, we formulated the medium term management plan anticipating a substantial decline in net sales. However, we will be exerting our strong capabilities of IT device distribution that we have built until today. Furthermore, we will be focusing on cloud domain and others by bolstering our technology and proposal capabilities to improve our performance in the coming 3 years.




From here on, I'd like to concentrate on key points. The first point is collaboration with manufacturers. Against the current environment where chips supply is tight, IT industry overall is significantly impacted. For us to pursue our distribution function, it is critical to bolster collaboration with manufacturers. Not only are we procuring strategically based on the market trends and production status, we are also collaborating with each manufacturers to build sales expansion plans, develop original products and campaign programs. We handle 1,300 manufacturers, 2.2million items and always keep 30,000 pieces of inventories. We will continue to address supply shortage in the market, utilizing our know how of sales forecasting and inventory management which we have a long experience of and leverage our sales structure cooperating with manufacturers.



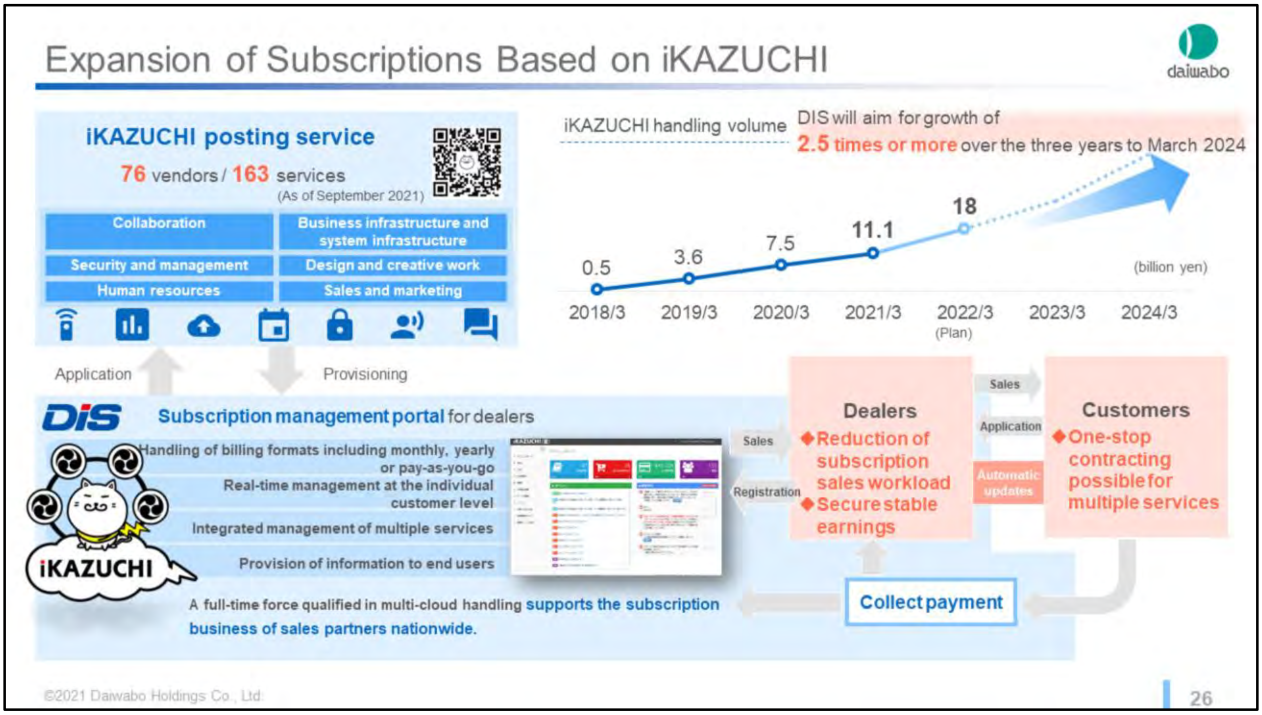

Next, I'd like to talk about our continuous effort in the Education ICT domain. With the promotion of GIGA School Concept since the last fiscal year, 1 terminal for every elementary and junior high school students has been distributed and high speed networks have been installed at each school. Based on the Ministry of Education, majority of public elementary and junior high schools already started to use terminals in their classes at all grades.

On the other hand, how to utilize ICT, how to teach students using ICT, how to address information ethics and students using terminals at home, are some of the new issues that arose in the education field. In order to cater to such needs post the GIGA concept, we prepared a structure to provide a wide variety of menus to support education sites through our sales partners, such as trainings for teachers, tools for remote classes, extended warranty of terminals and so on.

At the same time, introduction of 1 terminal per high school student is progressing step by step. This move is different compared to last year's GIGA School Concept, since it will not be a simultaneous introduction throughout Japan, and how to burden cost is different depending on local governments, but we will contribute to optimal and efficient ICT roll out, leveraging our strengths of nationwide coverage.

For the education overall, we will provide support to prepare an environment where students will be able to experience cutting edge technologies such as high performance PCs and 3D printers, as a part of STEAM (science, technology,

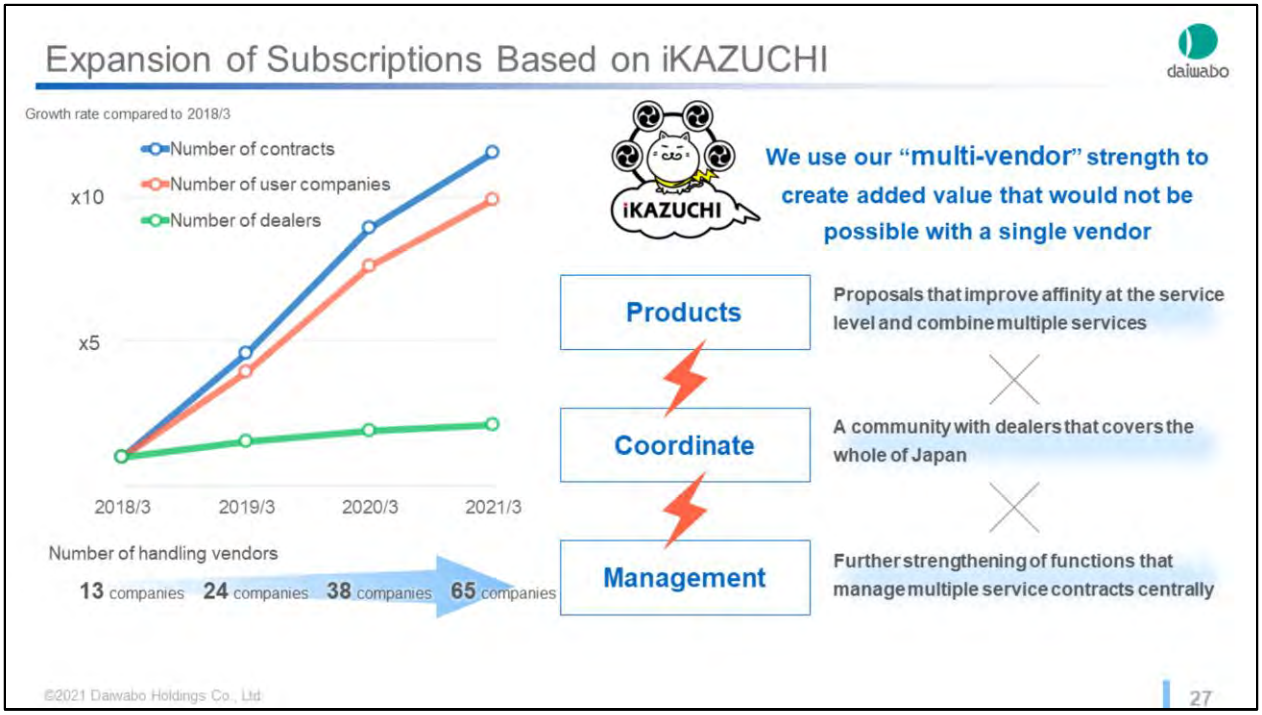
engineering, art, and mathematics) education to develop talents for the future.
We will enhance our cooperation with our sales partners and utilize the know how of the education specialty team to enhance our presence in the education ICT domain where further expansion is expected, to grow our business in a sustainable manner and to contribute to the society.




Here, I would like to explain about iKAZUCHI. In the medium term management plan, we hammered out a policy to grow as a cloud distributor and iKAZUCHI will be the key. iKAZUCHI is a subscription management portal site which is unique to DIS, offered for use to our sales partners free of charge.

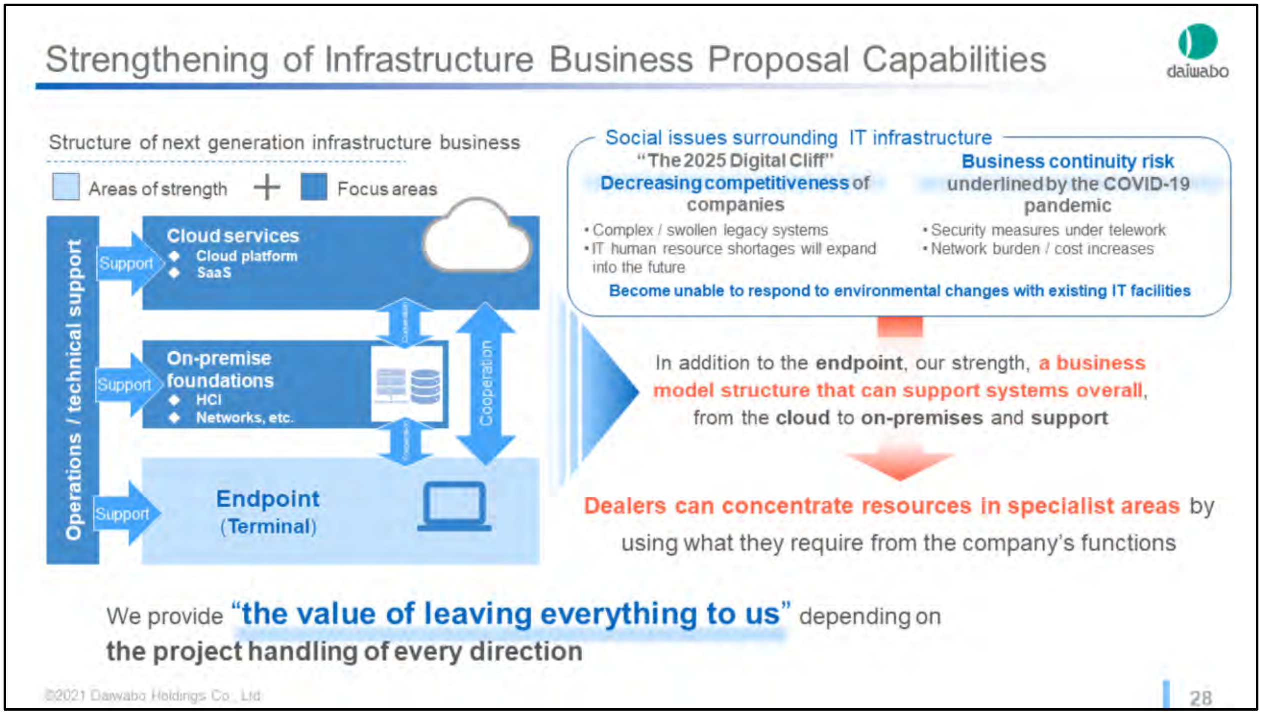
As of September, we have 76 vendors and 163 services, and offer a common platform where cloud services can be sold with automatic renewal function of various types of charges such as monthly/annual, or pay as you go.

In subscription sales, contract management and billing tends to be complicated. By reducing man hours to deal with such work, we are strongly supporting our sales partners' subscription business. By increasing sales through iKAZUCHi, we will be able to strengthen the recurring revenue model for us as well as for our sales partners. Transaction volume of last fiscal year was 11.1 billion yen. We aim to grow this by more than 2.5 times in the coming 3 years starting this fiscal year.




The left graph shows our growth rate using fiscal year ended March. 2018 as the base. As you can see, the number of contracts and the number of companies that use iKAZUCHI grew around 10 folds. The number of sales partners more than doubled and the number of contracts per partner also grew.

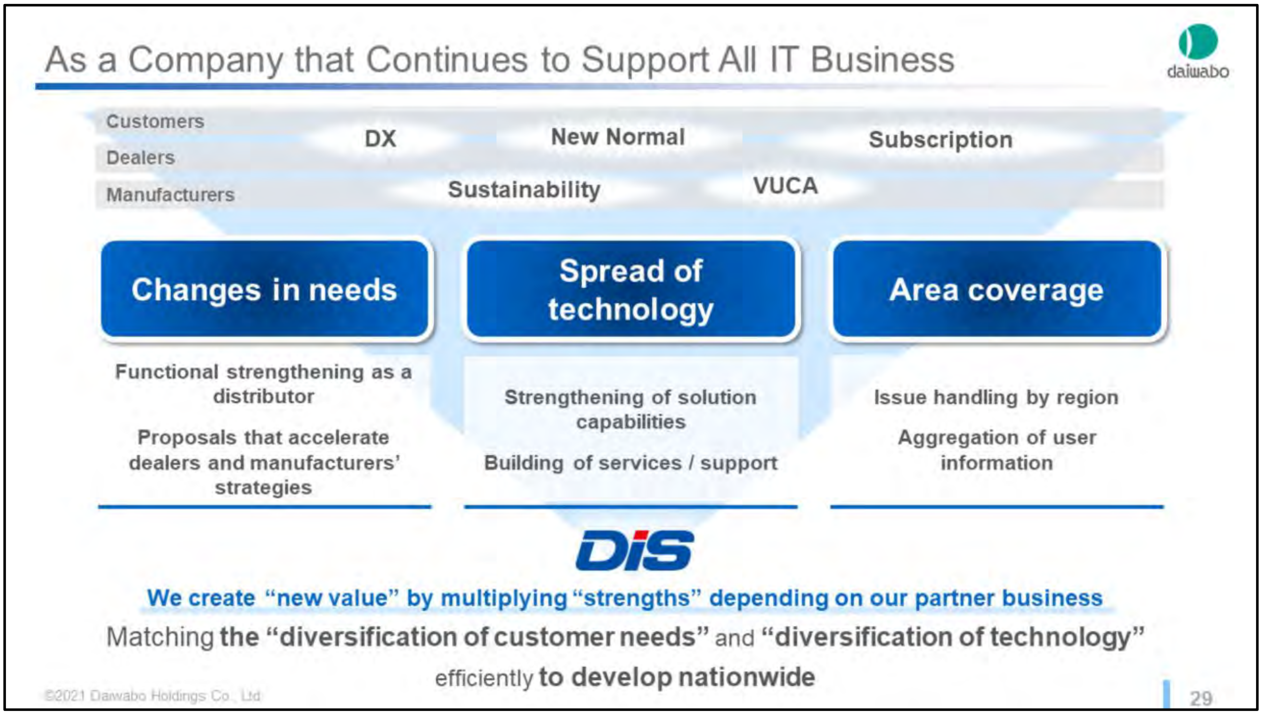
It is thanks to our strength as a multi-vendor that can propose combination of services, in addition to the penetration of cloud service and an increase in its usage. Going forward, not only are we going to bolster our cloud menu proposal capabilities, but also leverage our nation wide sales network to enhance our coordination and management capabilities to grow iKAZUCHI into a more enriched platform and create additional value that a single vendor will not be able to realize.




Next is about strengthening our proposal capability in infrastructure business. There is a serious problem of companies losing their competitiveness because of the so called 2025 cliff, which is a social issue surrounding IT infrastructure. Many companies still maintain old generation internal legacy systems and efficiency has been sacrificed as their operation continued for a long period of time, complicating and enlarging the systems. There is also a shortage of developers and maintenance personnel for such systems, and it is expected that such resources will face further shortage in the future.

Furthermore, with novel coronavirus, business continuity risks became apparent with measures needed for teleworking and others. Because of the difficulty of companies not being able to address environmental changes using their existing IT equipments, it has become more important to be able to make comprehensive proposals.

We have strengths in sales of PCs, terminals and endpoints. And on top of that, we will be developing a business model to be able to support the whole system covering cloud service, on premise platform, and operation and technology support. Business formats and sizes of our sales partners are varied, but by utilizing the necessary parts out of the versatile functions we are providing, they can focus their resources on their strong domains, while fulfilling a wide variety of needs of end users. By providing functions to address omnidirectional needs, we will provide "value to our partners by becoming a company that they can rely on, for everything “.




As a summary of IT Infrastructure Distribution Business, we will enhance our function as a distributor that multiplies the strengths to address changing and complicated needs to solve social issues. We will also bolster our capability to provide solutions that uses cutting edge technology to lead to business. Also, because we are a company that covers Japan nationwide, we can gather info and address the different needs of different regions by efficiently matching diversified customer needs and a variety of technologies. And by rolling that out nationwide, we aim to become a company that continues to support all kinds of IT businesses.

# Business Strategy - Fiber Business

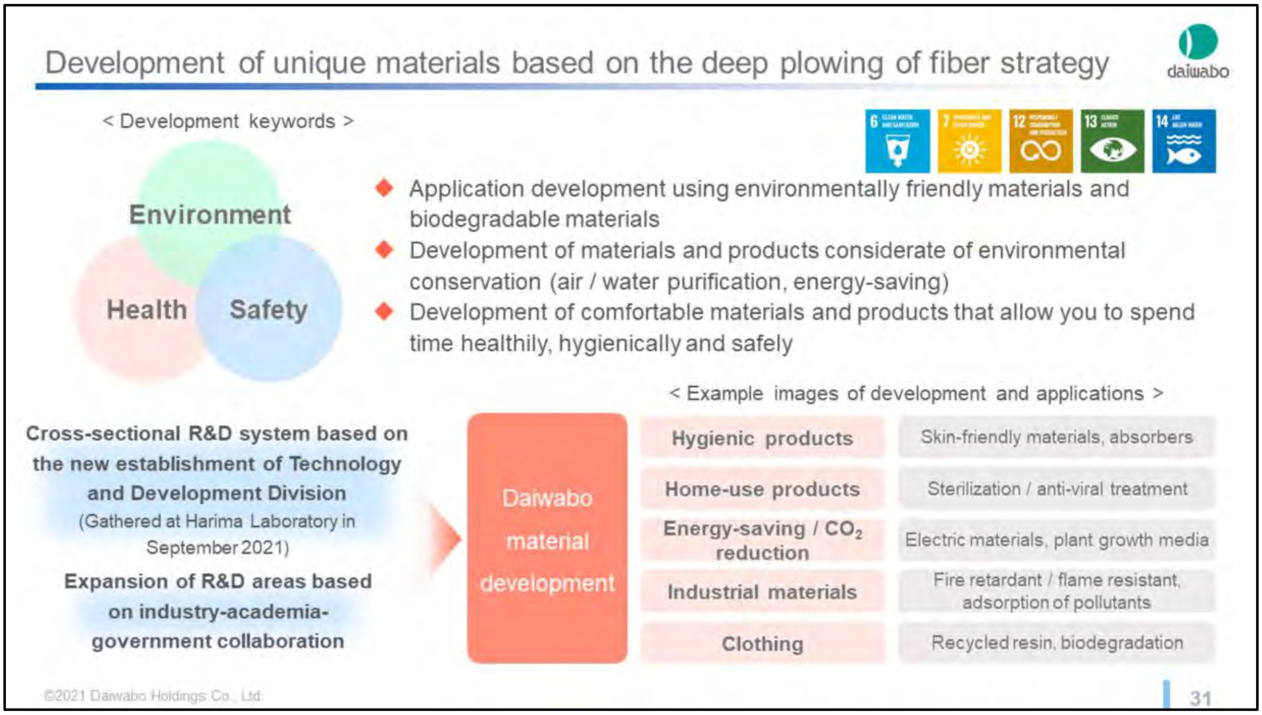
daiwabo

- **Reform into a company satisfying to work at centered on ESG**
  - Prevention of the reoccurrence of fraud based on the promotion of compliance and the strengthening of internal control
  - Reduction of $CO_2$ emissions and implementation of regular environmental audits
  - Environmentally friendly-type product development, including biodegradable, biomass and recycling
  - Greater business efficiency based on work environment improvements, human resource education and use of IT
- **Strengthening of the development of unique materials based on the deep plowing of fiber strategy**
  - Cross-sectional R&D system based on the new establishment of Technology and Development Division
  - Sales expansion using functional materials and sustainable materials
  - Horizontal development across the Group of materials and post-processing technology
  - Expansion of R&D areas based on industry-academia-government collaboration
- **Business activities conscious of invested fund efficiency**
  - Sales expansion of synthetic fiber cotton using R&D
  - Consolidation of Izumo Plant production bases towards increased sales of industrial materials
  - Reduction of number of months for inventory turnover based on the reduction of long-term inventories and appropriate management
  - Reinforcement through business restructuring in product business

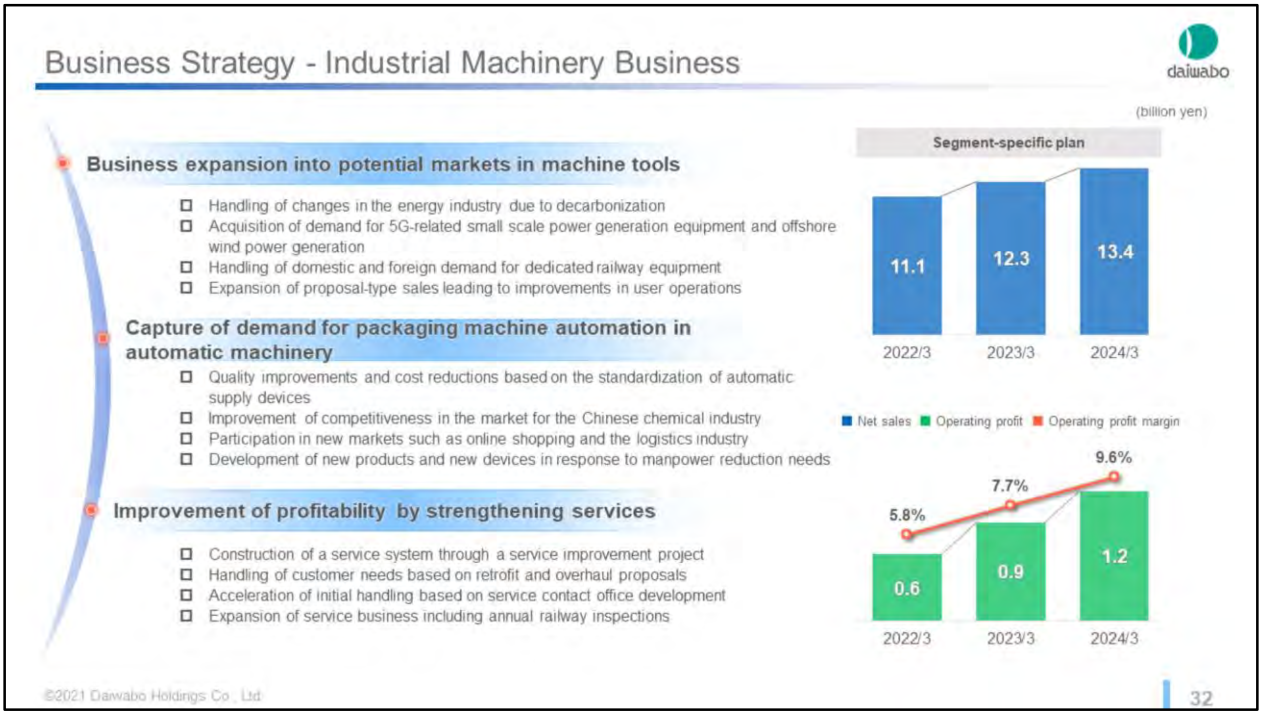



30

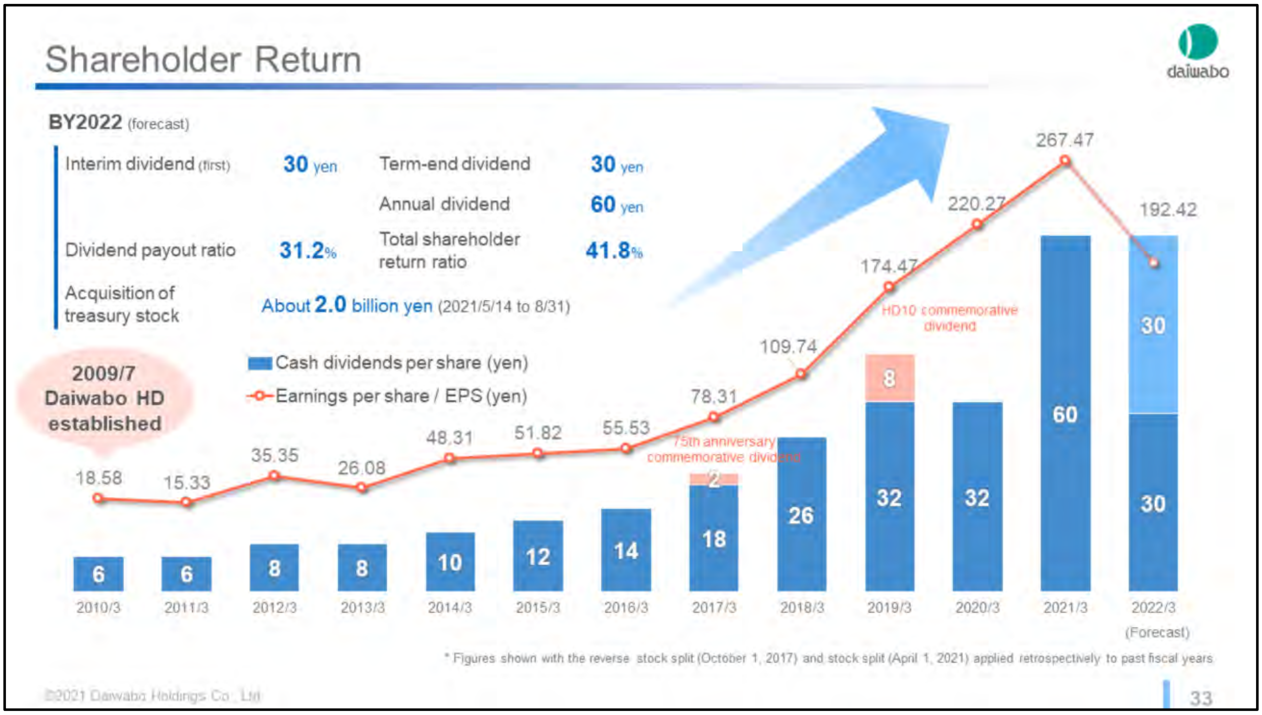
This is Fiber Business. Based on our medium term management strategy, we are working on each initiative. Looking at our performance until the 1st half, despite the headwinds of stagnant demand triggered by prolonged COVID and surge in fuel prices, we are progressing with contributing to ESG, strengthening our R&D structure, and reorganizing our businesses based on the plan.




At Daiwabo, we are putting a lot of efforts into developing our unique materials under our Fiber Strategy. With the key words of environment, health and safety, we are enhancing our development structure. In September this year, we consolidated our R&D team at Harima Research Center in Hyogo prefecture. We are proactively expanding our R&D domains through industry-academia-government collaboration, engaging in broad research and application development, covering hygiene materials to industrial materials to apparel.




Next is Industrial Machinery Business. We still cannot be optimistic about our orders mainly from aircraft industry, which was severely hit by novel coronavirus. But we are witnessing some recovery since the end of the 1st half. There are growth areas that OM’s technology can contribute to, such as expansion of demand especially in offshore wind power generation and 5G equipments, thus, we will take measures to make sure we capture such demands. We are also improving our internal structure to enhance our services to improve our profits and customer satisfaction.

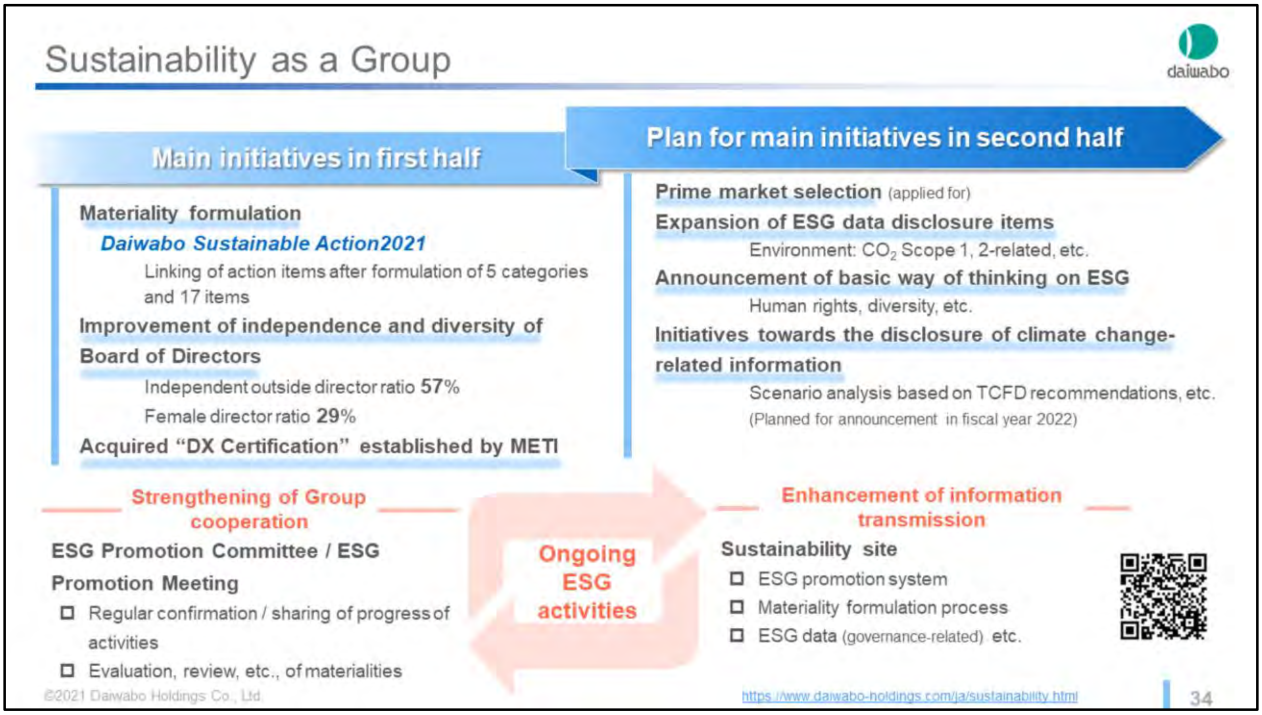



Here, I'd like to explain about shareholder returns. There are no changes to dividend forecast from our May disclosure and are planning interim dividend of 30 yen, year end dividend of 30 yen, total of 60 yen.

This graph shows the dividend trend since fiscal year ended March. 2010 when Daiwabo Holdings was established. We are offering interim dividend for the 1st time this fiscal year to enhance profit return opportunities to shareholders.

We also performed share buyback of around 2billion yen from May to August. All in all, we expect our payout ratio to be 31.2%, and total return to be 41.8%.

In the medium term management plan, our policy is 60 yen annual stable dividend and flexible buyback. We will continue to strike a balance with our growth investment and make efforts to enrich shareholder returns.




Last of all, I’d like to explain about our group’s sustainability initiatives. In the 1st half, we, as a group, formulated materiality, improved independence and diversity of our board of directors and obtained DX certification.
We will continue to promote our activities including enriching disclosure related to ESG.
Our group established ESG Promotion Committee to continue with our ESG activities through collaboration with each operating company. We are also improving and enriching external communication at the same time. We ask for your continuous support as we are aiming to become a company long trusted by our stakeholders by increasing corporate value sustainably and by contributing to the society through our businesses. This concludes my presentation. Thank you very much for your attention.

## Reference

- ➤ Medium-Term Management Plan

## Medium-Term Management Plan (Announced May 13, 2021)

daiwabo

- Period: **Fiscal year ending March 2022 to fiscal year ending March 2024** (3-year plan)
- Positioning: **"A turning point anticipating development into the future"**
  - ➤ A period of challenge towards "business model reform" aimed at sustainable growth
  - ➤ Contributions to the resolution of social issues through business with an ESG perspective
  - ➤ Maximization of the human resource value that will create the future

**Basic policy of the group**

01 **The creation of next generation growth drivers**

02 **Contributions to the creation of a new society as a leading company**

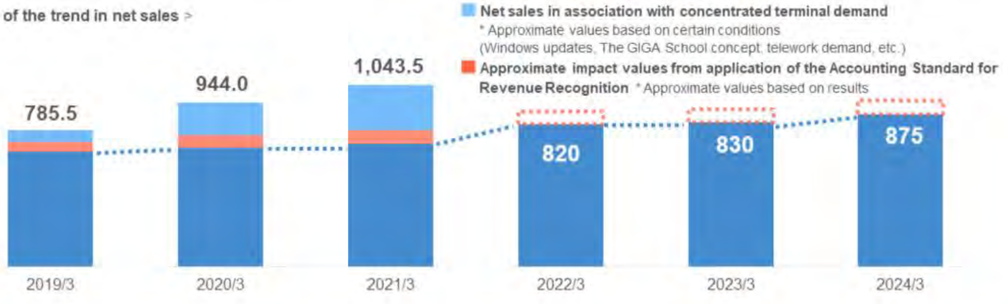
03 **Reform of management foundations**

## New Medium-Term Management Plan - Revenue Indicators

| (billion yen) | 2021/3 (Results) | 2022/3 (Plan) | 2023/3 (Plan) | 2024/3 (Plan) |
|---|---|---|---|---|
| Net sales | 1,043.5 | 820 | 830 | 875 |
| Operating profit | 35.0 | 28.5 | 28.6 | 31.4 |
| Operating profit margin | 3.4% | 3.5% | 3.5% | 3.6% |

-> Application of the Accounting Standard for Revenue Recognition

< Image of the trend in net sales >



## New Medium-Term Management Plan - Group Management Indicators

daiwabo

**ROE 14% or higher**

Return on equity
< **Return on shareholder's equity** >

> Cost of shareholders' equity
> **8.6%**
> (Company recognition of the current situation)

**ROIC 11~12% level maintenance**

Return on invested capital (*)
< **Return on invested capital** >

> WACC
> Weighted average capital cost
> **7.0%**
> (Company recognition of the current situation)

**Sustainable improvement of corporate value**

* Operating profit after tax / (net assets + interest-bearing debt)

# Medium-Term Management Plan - Cash Allocation Policy

daiwabo

**Basic policy**

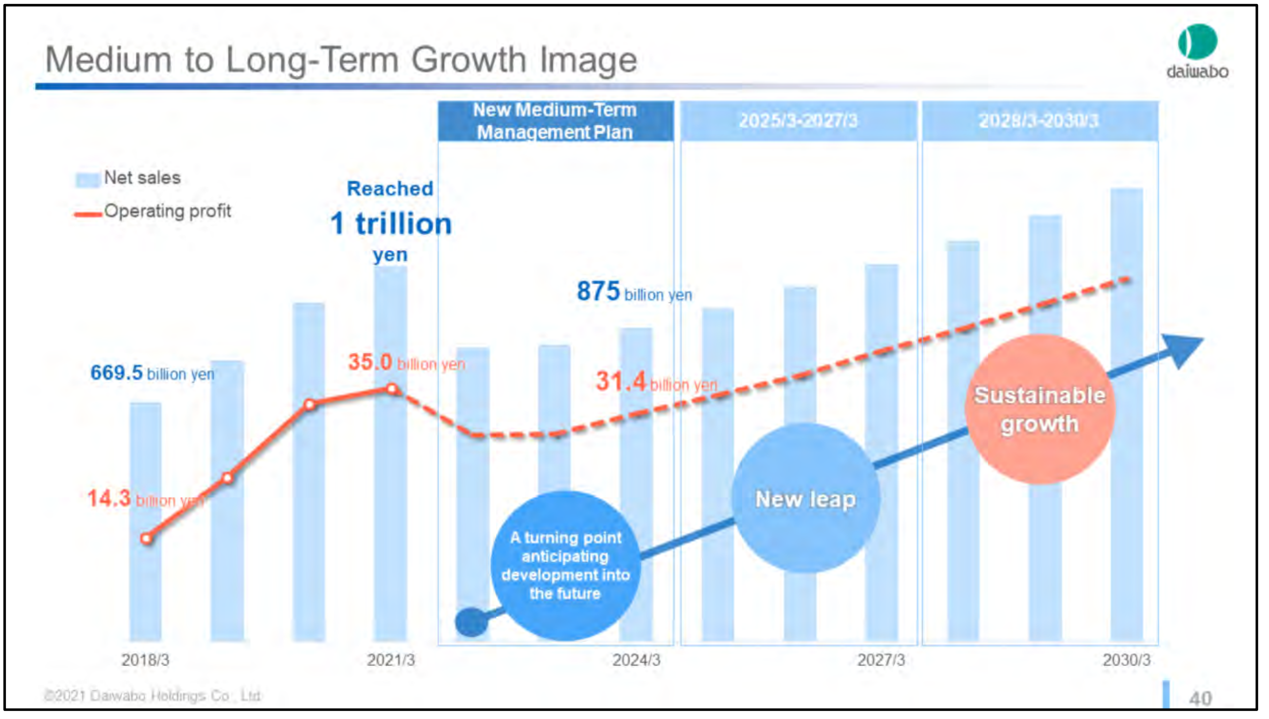
- We will aim to enhance shareholder returns appropriately.
- We will make growth investments in new areas while continuing to invest towards the sustainable growth of existing business.
- We will prepare for strategic product procurement and unforeseen circumstances while securing a certain level of 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 |
|---|---|---|---|---|
| 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. | We will **invest in equipment** towards the sustainable growth of existing business and implement **marketing, R&D and the hiring of human resources**. | 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. | We will consider the **flexible acquisition of treasury stock** in accordance with the market environment. | **Securing of liquidity on hand** in readiness for fund demand in association with strategic product procurement in IT Infrastructure Distribution Business and unforeseen circumstances |

BY2021
Dividend forecast
Interim **30** yen + term-end **30** yen

Acquired treasury stock of approximately
**2.0** billion yen
Total acquisition: Approximately **1.04** million shares / **1.08%**
Acquisition period: May 14, 2021 ~ August 31, 2021


Medium to Long-Term Growth Image
daiwabo
New Medium-Term Management Plan
2025/3-2027/3
2028/3-2030/3
Net sales
Operating profit
Reached
1 trillion
yen
875 billion yen
669.5 billion yen
35.0 billion yen
31.4 billion yen
14.3 billion yen
Sustainable growth
New leap
A turning point anticipating development into the future
2018/3
2021/3
2024/3
2027/3
2030/3
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# References

- Corporate Profile
- Charts for Performance Trend

## Overview of Business Segments

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**IT Infrastructure Distribution Business**

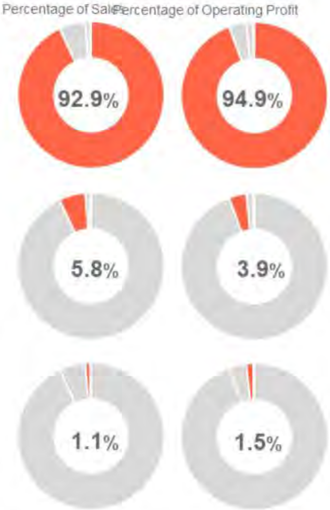
**Japan's largest distributor of IT-related products**
It has a large network of business partners through sales activities at 93 locations nationwide with strong ties to local communities
As an independent multi-vendor company that does not specialize in specific vendors, it sells products and services of approximately 1,300 vendors around the world including PCs

**Fiber Business**

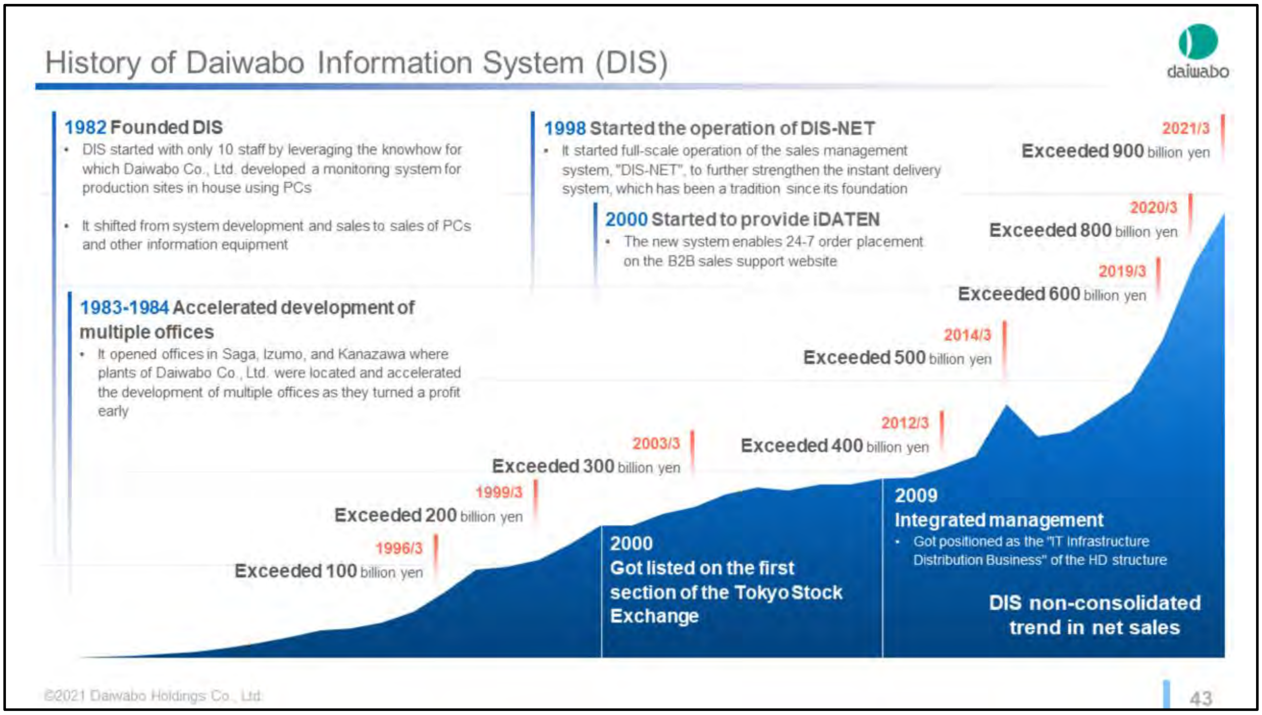
| | |
|---|---|
| **Synthetic Fibers and Rayon Divisions** | It offers fiber materials and products such as synthetic fiber cotton for use as hygiene materials including paper diapers, and highly biodegradable rayon |
| **Industrial Material Division** | It offers industrial fiber products such as industrial 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 |




(BY2020 results)


History of Daiwabo Information System (DIS)
daiwabo
1982 Founded DIS
DIS started with only 10 staff by leveraging the knowhow for 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
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
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
2021/3
Exceeded 900 billion yen
2020/3
Exceeded 800 billion yen
2019/3
Exceeded 600 billion yen
2014/3
Exceeded 500 billion yen
2012/3
Exceeded 400 billion yen
2003/3
Exceeded 300 billion yen
1999/3
Exceeded 200 billion yen
1996/3
Exceeded 100 billion yen
2000
Got listed on the first section of the Tokyo Stock Exchange
2009
Integrated management
Got positioned as the "IT Infrastructure Distribution Business" of the HD structure
DIS non-consolidated trend in net sales
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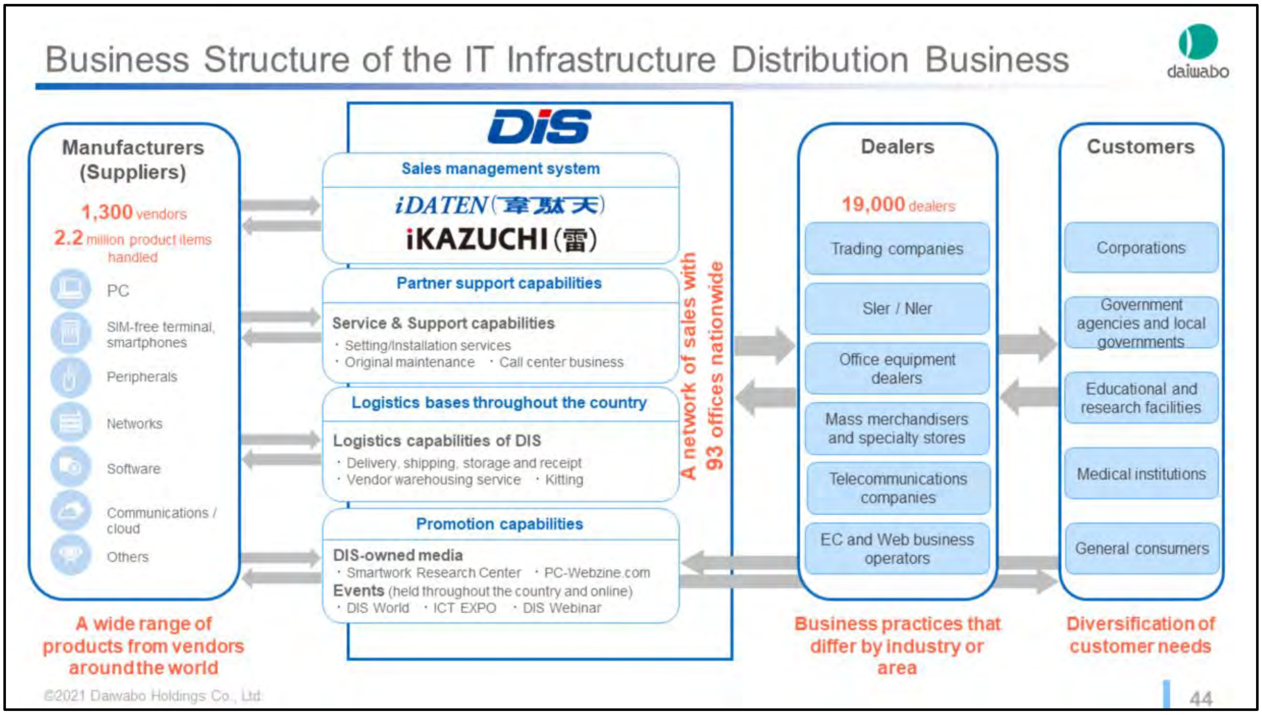
Business Structure of the IT Infrastructure Distribution Business
daiwabo
DiS
Manufacturers (Suppliers)
1,300 vendors
2.2 million product items handled
PC
SIM-free terminal, smartphones
Peripherals
Networks
Software
Communications / cloud
Others
Sales management system
iDATEN (韋駄天)
iKAZUCHI (雷)
Partner support capabilities
Service & Support capabilities
・Setting/Installation services
・Original maintenance ・Call center business
Logistics bases throughout the country
Logistics capabilities of DIS
・Delivery, shipping, storage and receipt
・Vendor warehousing service ・Kitting
Promotion capabilities
DIS-owned media
・Smartwork Research Center ・PC-Webzine.com
Events (held throughout the country and online)
・DIS World ・ICT EXPO ・DIS Webinar
A network of sales with 93 offices nationwide
Dealers
19,000 dealers
Trading companies
SIer / NIer
Office equipment dealers
Mass merchandisers and specialty stores
Telecommunications companies
EC and Web business operators
Customers
Corporations
Government agencies and local governments
Educational and research facilities
Medical institutions
General consumers
A wide range of products from vendors around the world
Business practices that differ by industry or area
Diversification of customer needs
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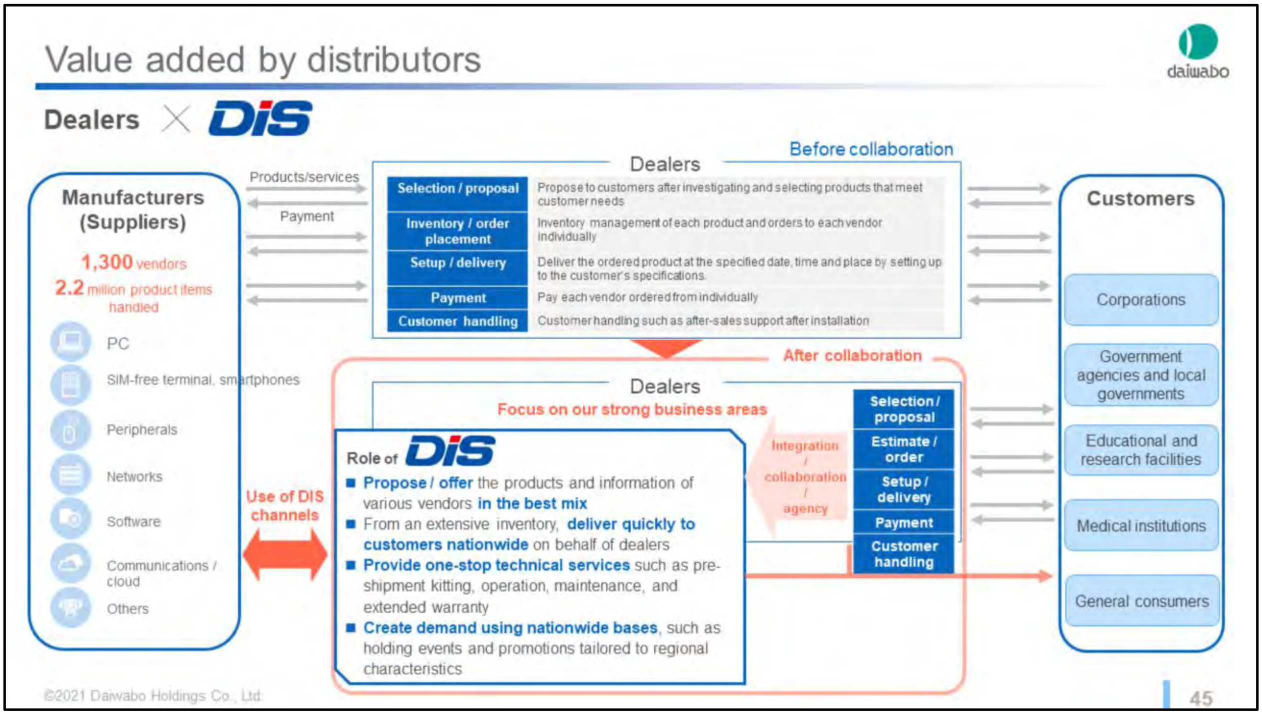

Value added by distributors
daiwabo
Dealers × DIS
Before collaboration
Dealers
Manufacturers (Suppliers)
1,300 vendors
2.2 million product items handled
PC
SIM-free terminal, smartphones
Peripherals
Networks
Software
Communications / cloud
Others
Products/services
Payment
Selection / proposal
Propose to customers after investigating and selecting products that meet customer needs
Inventory / order placement
Inventory management of each product and orders to each vendor individually
Setup / delivery
Deliver the ordered product at the specified date, time and place by setting up to the customer's specifications
Payment
Pay each vendor ordered from individually
Customer handling
Customer handling such as after-sales support after installation
Customers
Corporations
Government agencies and local governments
Educational and research facilities
Medical institutions
General consumers
After collaboration
Dealers
Focus on our strong business areas
Use of DIS channels
Role of DIS
Propose / offer the products and information of various vendors in the best mix
From an extensive inventory, deliver quickly to customers nationwide on behalf of dealers
Provide one-stop technical services such as pre-shipment kitting, operation, maintenance, and extended warranty
Create demand using nationwide bases, such as holding events and promotions tailored to regional characteristics
Integration / collaboration / agency
Selection / proposal
Estimate / order
Setup / delivery
Payment
Customer handling
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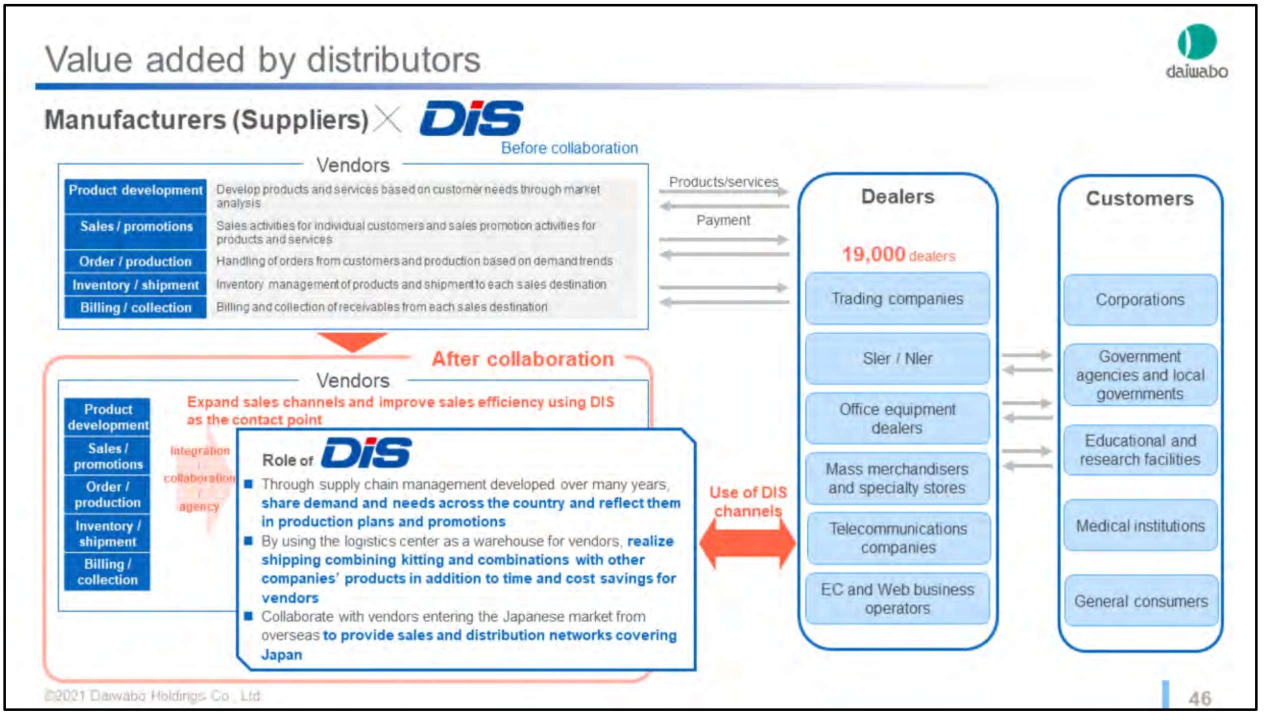

Value added by distributors
daiwabo
Manufacturers (Suppliers) × DIS
Before collaboration
Vendors
Product development
Develop products and services based on customer needs through market analysis
Sales / promotions
Sales activities for individual customers and sales promotion activities for products and services
Order / production
Handling of orders from customers and production based on demand trends
Inventory / shipment
Inventory management of products and shipment to each sales destination
Billing / collection
Billing and collection of receivables from each sales destination
Products/services
Payment
After collaboration
Vendors
Expand sales channels and improve sales efficiency using DIS as the contact point
Product development
Sales / promotions
Order / production
Inventory / shipment
Billing / collection
Integration
collaboration
agency
Role of DIS
Through supply chain management developed over many years, share demand and needs across the country and reflect them in production plans and promotions
By using the logistics center as a warehouse for vendors, realize shipping combining kitting and combinations with other companies' products in addition to time and cost savings for vendors
Collaborate with vendors entering the Japanese market from overseas to provide sales and distribution networks covering Japan
Use of DIS channels
Dealers
19,000 dealers
Trading companies
SIer / NIer
Office equipment dealers
Mass merchandisers and specialty stores
Telecommunications companies
EC and Web business operators
Customers
Corporations
Government agencies and local governments
Educational and research facilities
Medical institutions
General consumers
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# Streamlining of Distribution Centers

**Kansai Center** (Kobe City)

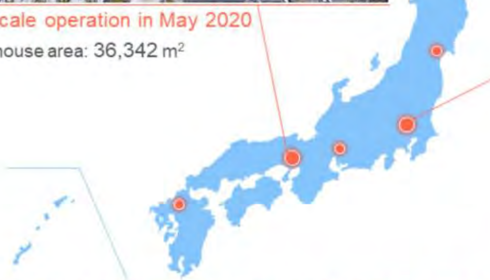
Full-scale operation in May 2020

Warehouse area: 36,342 $m^2$

**Kanto Central Center** (Yoshimi-machi, Saitama Prefecture)

Full-scale operation in June 2016

Warehouse area: 44,753 $m^2$



**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

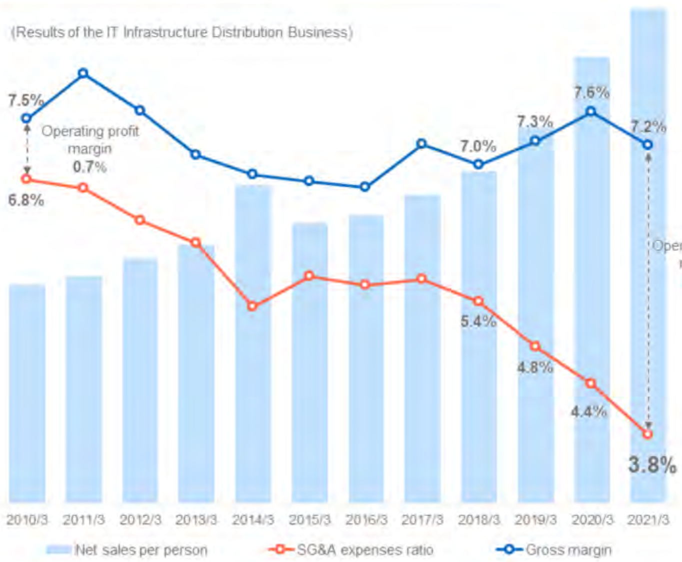
**PC / tablet kitting results** : **870,000** annually (2021/3)

**Truck reservation reception system**

-> Sharing of incoming and outgoing information and vehicle equalizing

# Low-Cost Operation

(Results of the IT Infrastructure Distribution Business)




**Thorough implementation of low-cost operation through active investment in internal systems**

Core system, "**DIS-NET**"

1998 DIS-NET

2005 DIS-NET II

2013 DIS-NET III

2020 **DIS-NET IV**

**It works with all systems to maximize operating efficiency**

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

# Fiber Business Product Examples

daiwabo

## Synthetic fibers and rayon


Spun lace non-woven fabrics

- 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 from highly biodegradable rayon produced from wood pulp

## Industrial materials


Cartridge filters


Soundproof sheets at construction sites

- Filters to filter impurities 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 for 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


"FILA" brand clothing

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

# Industrial Machinery Business Product Examples

daiwabo

## Vertical lathes/ Turning centers

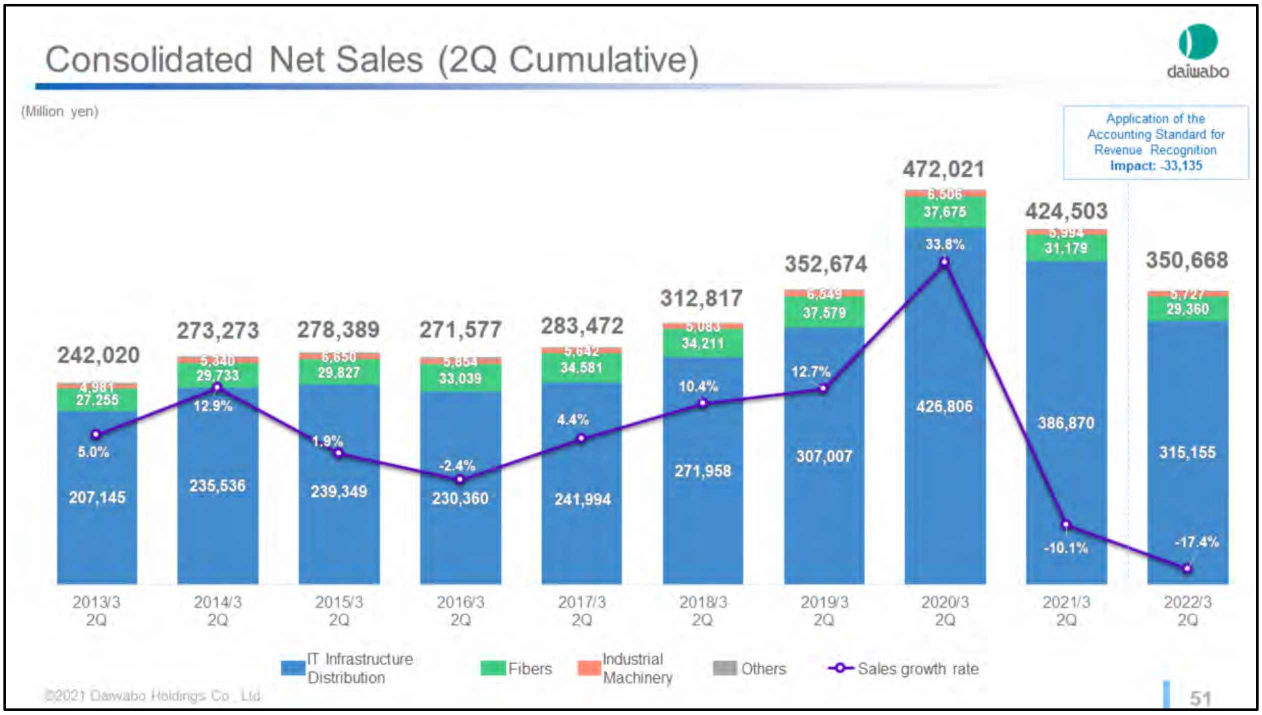
- **No. 1 share in Japan** for both medium- and large-sized lathes (Cumulative shipments exceeded **7,400** units)
- Highly evaluated as "**OM for vertical lathes**" in Japan and overseas
- A machine that is used to cut a workpiece by attaching it to a horizontally rotating table. The table diameter 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
- The photo 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. 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)
daiwabo
(Million yen)
Application of the Accounting Standard for Revenue Recognition
Impact: -33,135
242,020
4,981
27,255
5.0%
207,145
273,273
5,340
29,733
12.9%
235,536
278,389
6,650
29,827
1.9%
239,349
271,577
5,854
33,039
-2.4%
230,360
283,472
5,642
34,581
4.4%
241,994
312,817
5,083
34,211
10.4%
271,958
352,674
6,549
37,579
12.7%
307,007
472,021
6,506
37,675
33.8%
426,806
424,503
5,994
31,179
386,870
-10.1%
350,668
5,727
29,360
315,155
-17.4%
2013/3 2Q
2014/3 2Q
2015/3 2Q
2016/3 2Q
2017/3 2Q
2018/3 2Q
2019/3 2Q
2020/3 2Q
2021/3 2Q
2022/3 2Q
IT Infrastructure Distribution
Fibers
Industrial Machinery
Others
Sales growth rate
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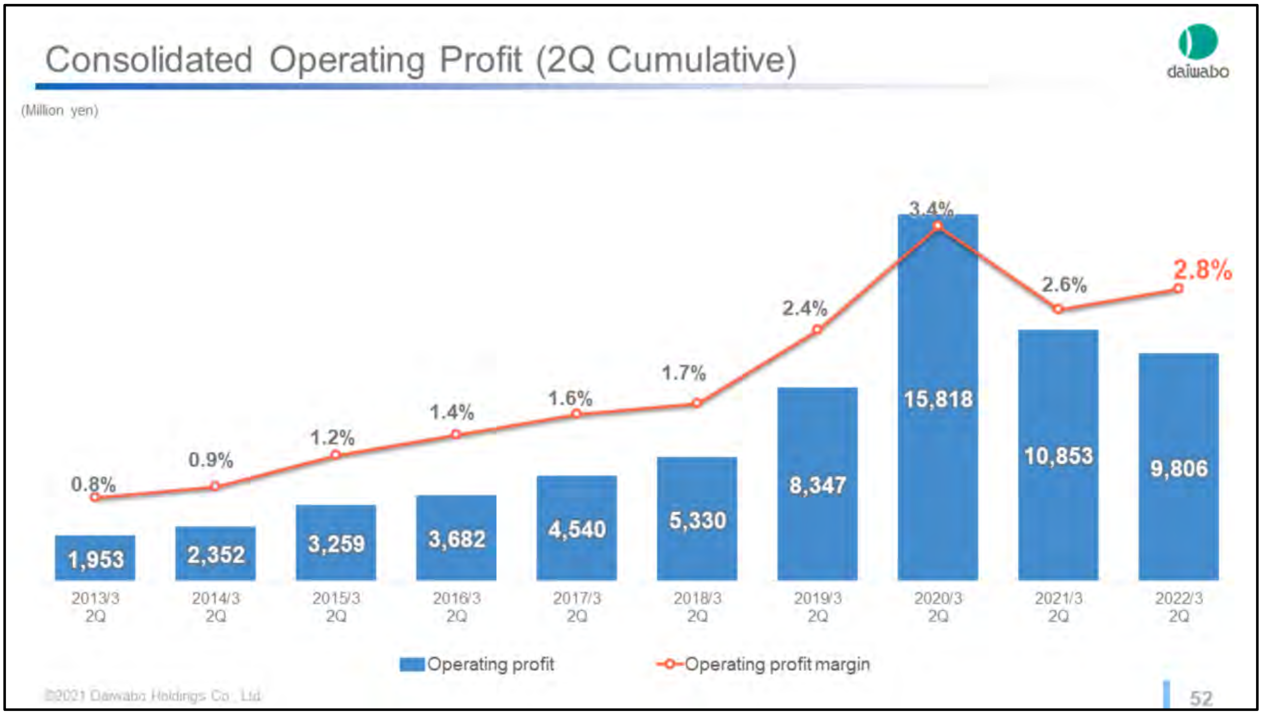
Consolidated Operating Profit (2Q Cumulative)
daiwabo
(Million yen)
0.8%
0.9%
1.2%
1.4%
1.6%
1.7%
2.4%
3.4%
2.6%
2.8%
1,953
2,352
3,259
3,682
4,540
5,330
8,347
15,818
10,853
9,806
2013/3 2Q
2014/3 2Q
2015/3 2Q
2016/3 2Q
2017/3 2Q
2018/3 2Q
2019/3 2Q
2020/3 2Q
2021/3 2Q
2022/3 2Q
Operating profit
Operating profit margin
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## Consolidated Ordinary Profit and Consolidated Quarterly Net Profit (2Q Cumulative)


Quarterly Results
daiwabo
(Million yen)
Consolidated net sales
141,856
170,961
160,216
196,562
158,473
194,200
189,256
243,623
205,467
266,553
238,585
233,446
187,315
237,187
285,327
333,703
166,862
183,806
1Q 2Q 3Q 4Q 1Q 2Q 3Q 4Q 1Q 2Q 3Q 4Q 1Q 2Q 3Q 4Q 1Q 2Q
2018/3
2019/3
2020/3
2021/3
2022/3
Consolidated operating profit
Operating profit margin
1.2%
2.1%
1.5%
3.3%
1.6%
3.0%
2.5%
4.0%
2.6%
3.9%
3.2%
4.0%
2.5%
2.6%
3.6%
4.1%
2.6%
2.9%
1,737
3,592
2,466
6,500
2,543
5,803
4,679
9,682
5,369
10,448
7,702
9,320
4,629
6,223
10,348
13,826
4,393
5,412
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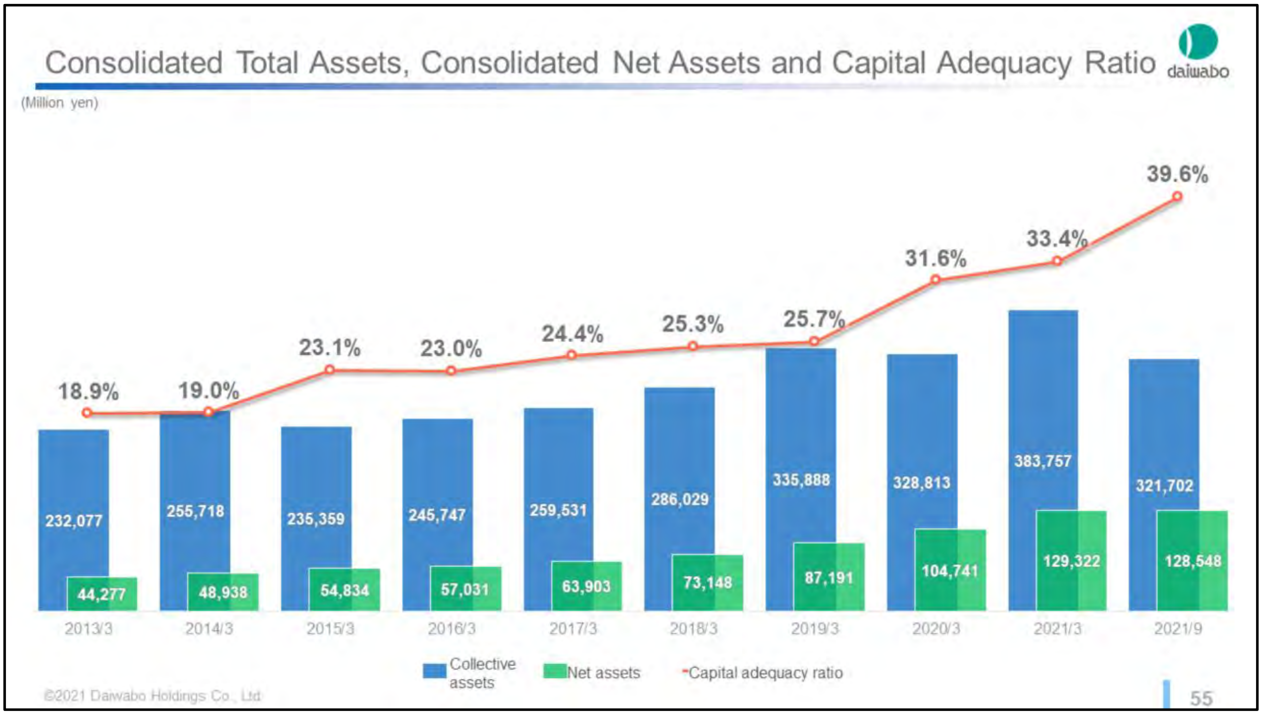
Consolidated Total Assets, Consolidated Net Assets and Capital Adequacy Ratio
daiwabo
(Million yen)
18.9%
19.0%
23.1%
23.0%
24.4%
25.3%
25.7%
31.6%
33.4%
39.6%
232,077
255,718
235,359
245,747
259,531
286,029
335,888
328,813
383,757
321,702
44,277
48,938
54,834
57,031
63,903
73,148
87,191
104,741
129,322
128,548
2013/3
2014/3
2015/3
2016/3
2017/3
2018/3
2019/3
2020/3
2021/3
2021/9
Collective assets
Net assets
Capital adequacy ratio
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Daiwabo Holdings Co., Ltd.

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**News**
https://www.daiwabo-holdings.com/ja/news.html

**Daiwabo Group list**
https://www.daiwabo-holdings.com/ja/group.html

**History**
https://www.daiwabo-holdings.com/ja/company/history.html

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