

1st Quarter of the Fiscal Year Ending March 2022 Financial Results Materials

August 5, 2021



Daiwabo Holdings Co.,Ltd.

(Stock code: **3107**)

1st Quarter of the Fiscal Year Ending March 2022 (April 1, 2021 - June 30, 2021)

Results trended at levels close to the same period of the previous business year in an uncertain market environment

Application of the “Accounting Standard for Revenue Recognition” from this term

IT Infrastructure Distribution Business

The number of contracts for subscription services for corporations and government offices increased, but PC sales, etc., were sluggish and there were no major projects nationwide. Sales expansion in the education market due to the ongoing GIGA School program from last term.

In the consumer market, sales of PCs and peripherals decreased in comparison to the previous term.

Fiber Business

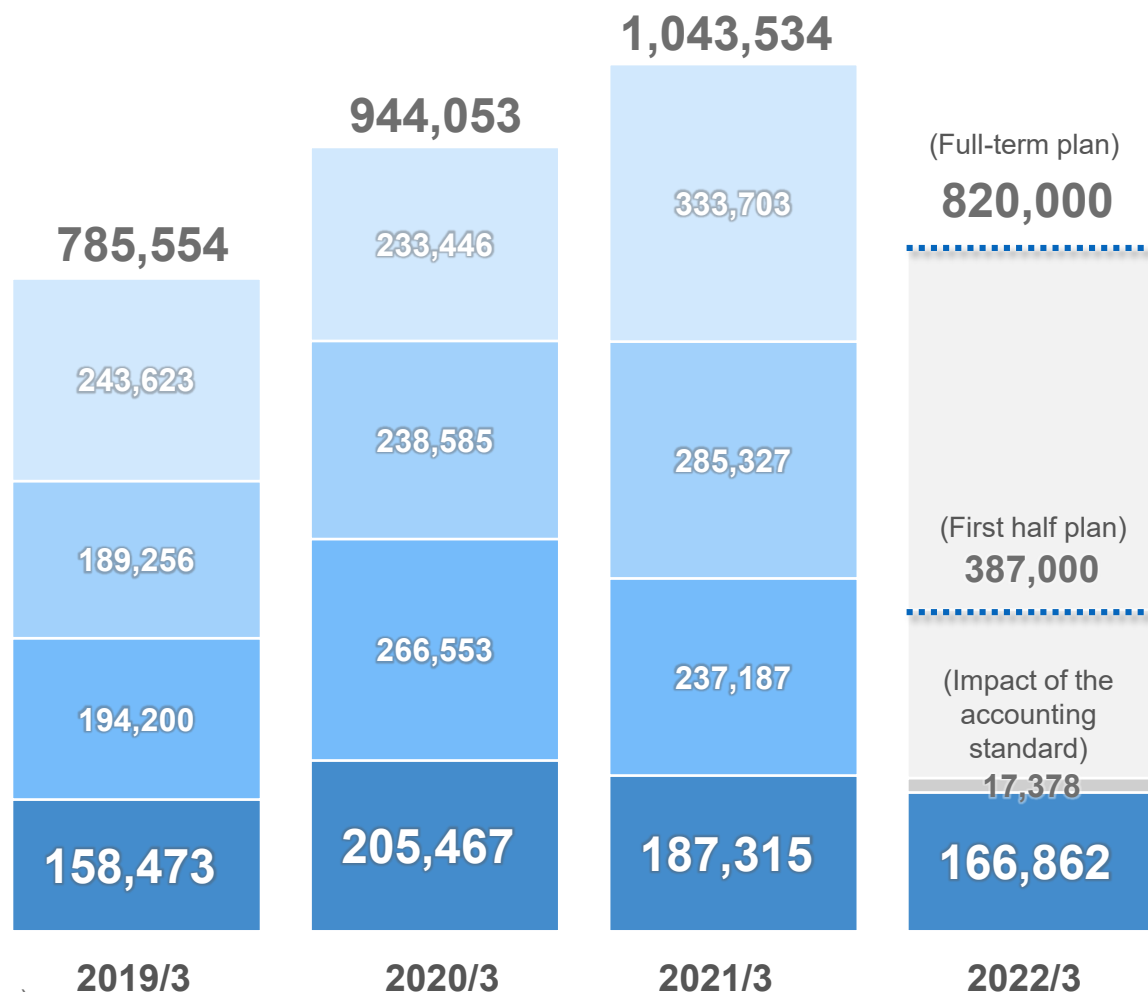
Synthetic fiber cotton for use in construction materials, etc., and rayon with a low environmental load trended well, but in addition to the rebound of sterilization-related demand, sales of heavy fabric products and clothing continued to stagnate.

Industrial Machinery Business

Although the stagnation of capital investment continued among customers, a recovery in the order environment was apparent compared to last term and sales of services also increased.

Cumulative Net Sales for the 1st Quarter of the Fiscal Year Ending March 2022

■ 1Q ■ 2Q ■ 3Q ■ 4Q



-10.9% against the same period of the previous fiscal year

- ▶ Impact of the standard for revenue recognition **17,378** million yen
- ▶ Comparison under the new standard **-3.3%**

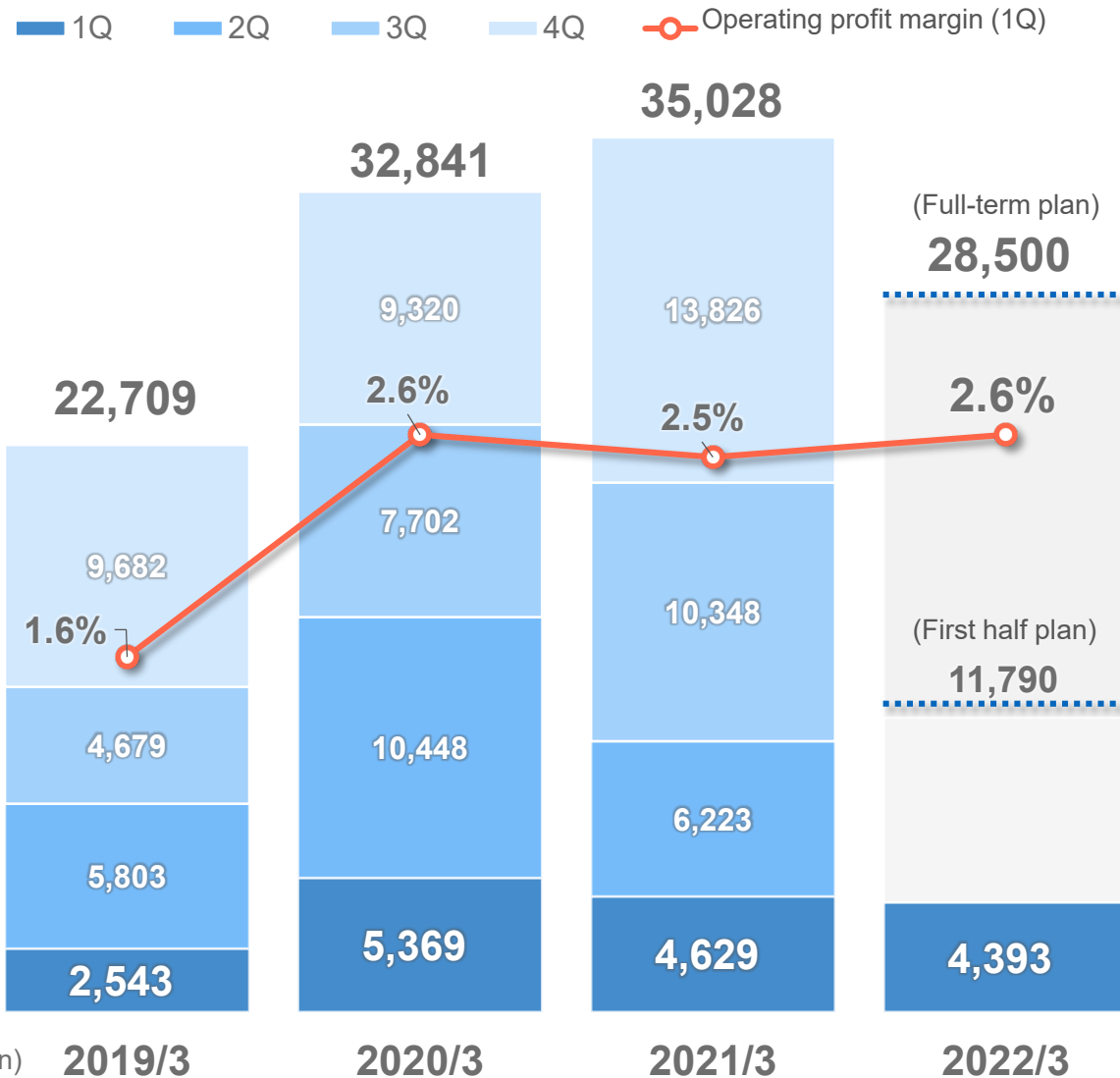
Net sales third highest ever for 1Q

Rate of progress First half **43.1%** / full-term **20.3%**

(Million yen)

* See page 6 with regard to the application of the "Accounting Standard for Revenue Recognition"

Cumulative Operating Profit for the 1st Quarter of the Fiscal Year Ending March 2022



-5.1% against the same period of the previous fiscal year

Operating profit margin **2.6%**

Operating profit third highest ever for 1Q
Rate of progress First half **37.3%** / full-term **15.4%**

(Million yen) 2019/3

2020/3

2021/3

2022/3

Summary of the Consolidated Settlement of Accounts for the Cumulative 1st Quarter of the Fiscal Year Ending March 2022



(Million yen)	2021/3 1Q	2022/3 1Q	Change	Compared to previous term	First half plan	Progress rate
Net sales	187,315	166,862	(20,452)	(10.9%)	387,000	43.1%
Operating profit	4,629	4,393	(236)	(5.1%)	11,790	37.3%
Ordinary profit	4,786	4,521	(265)	(5.6%)	11,800	38.3%
Quarterly profit attributable to owners of parent	4,290	3,114	(1,175)	(27.4%)	8,100	38.5%
Quarterly net profit per share (yen)	44.62	32.45				

(Million yen)	2021/3	2021/6	Change	Major reasons for change
Collective assets	383,757	326,387	(57,369)	Decrease in receivables, etc.
Net assets	129,322	125,726	(3,595)	Decrease in retained earnings
Capital adequacy ratio	33.4%	38.2%		

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

(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.

Application of the Accounting Standard for Revenue Recognition

Because ASBJ Statement No. 29 “**Accounting Standard for Revenue Recognition**” will apply from March 2022, the method for recording sales for some transactions, mainly in IT Infrastructure Distribution Business, will change.

(Approximate values: billion yen)		2021/3 (Results)	2022/3 (Forecast)	Change
Net sales	[1] Old standard	1,043.5	892	(151.5) (14.5%)
	[2] New standard	-	820	
	[2] - [1]	-	(72)	
Operating profit		35.0	28.5	(6.5) (18.6%)
Operating profit margin	[1] Old standard	3.4%	3.2%	
	[2] New standard		3.5%	

* The figures shown are reference values, based on certain conditions, of the amount of impact due to the change of accounting standard in IT Infrastructure Distribution Business.

< 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)

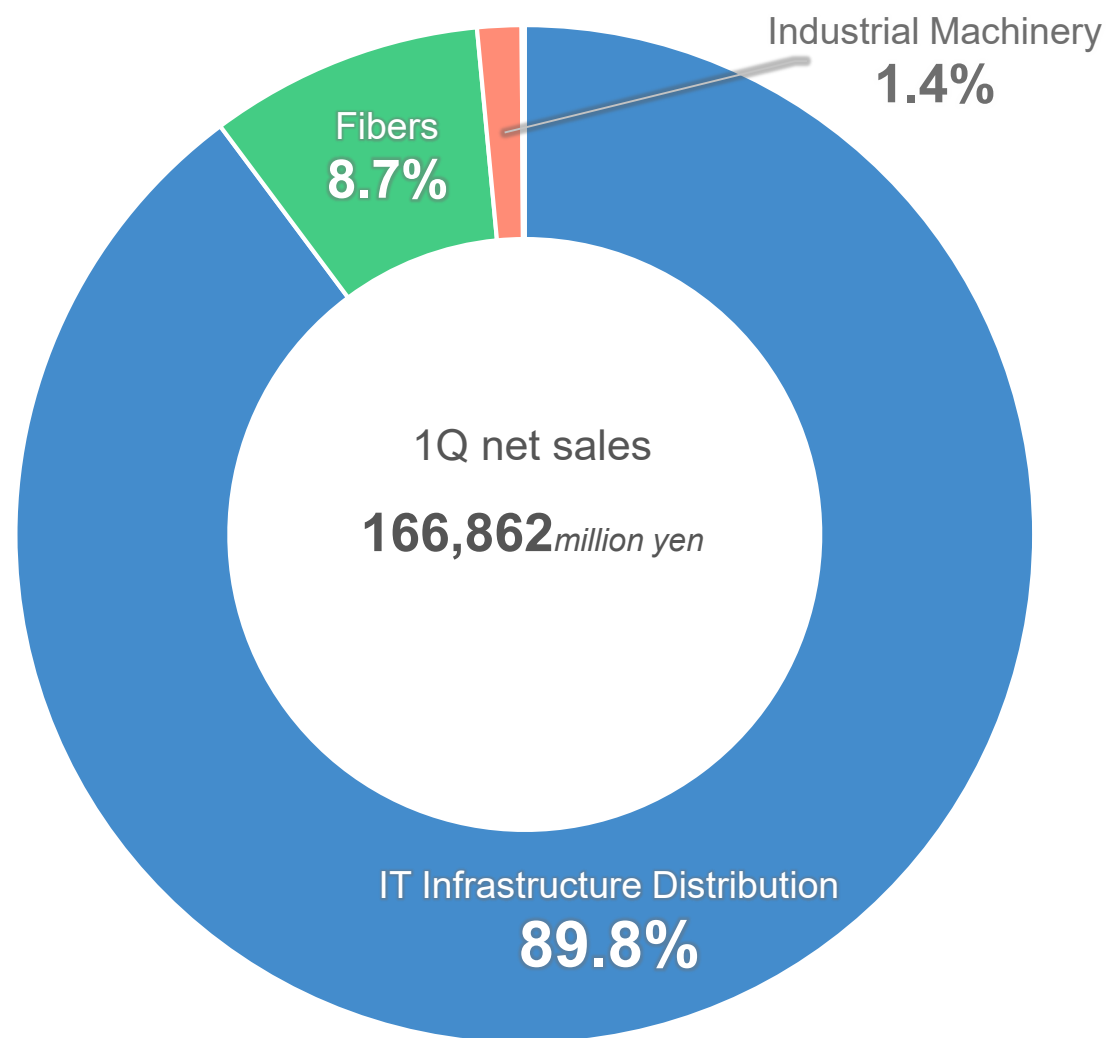


[New standard]: Record sale of the **net amount** of sales consideration (A-B)



Operating Results by Segment for the Cumulative 1st Quarter of the Fiscal Year Ending March 2022

(Million yen)		2021/3 1Q	2022/3 1Q	Change	Compared to previous term
Net sales	IT Infrastructure Distribution	169,523	149,878	(19,644)	(11.6%)
	Fibers	15,824	14,460	(1,364)	(8.6%)
	Industrial Machinery	1,783	2,333	+549	+30.8%
	Others	183	190	+6	+3.6%
	Total	187,315	166,862	(20,452)	(10.9%)
Operating profit	IT Infrastructure Distribution	3,838	3,558	(280)	(7.3%)
	Fibers	887	729	(158)	(17.8%)
	Industrial Machinery	(45)	124	+169	-
	Others	(51)	(19)	+31	-
	(Adjustment)	0	0		
Total	4,629	4,393	(236)	(5.1%)	



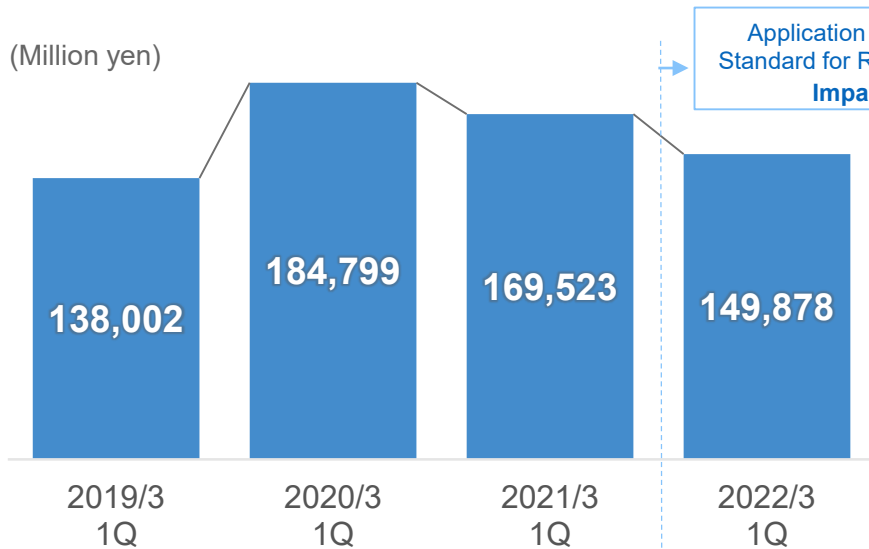
Percentage of net sales

	2021/3 1Q	2022/3 1Q
IT Infrastructure Distribution	90.5%	89.8%
Fibers	8.4%	8.7%
Industrial Machinery	1.0%	1.4%

Percentage of operating profit

	2021/3 1Q	2022/3 1Q
IT Infrastructure Distribution	82.9%	81.0%
Fibers	19.2%	16.6%
Industrial Machinery	(1.0%)	2.8%

IT Infrastructure Distribution Business



Application of the Accounting Standard for Revenue Recognition
Impact: -17,378

Net sales **149,878** million yen (-11.6% compared to previous term)

Operating profit **3,558** million yen (-7.3% compared to previous term)

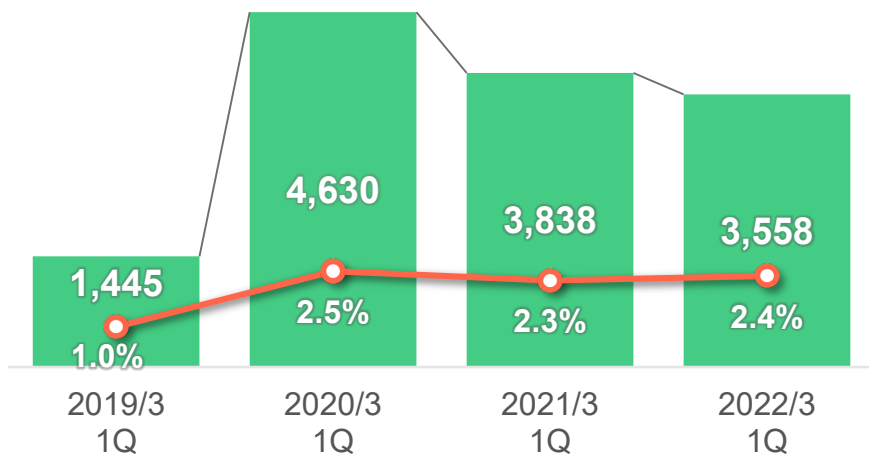
Number of PCs shipped **620,000** units (-1.7% compared to previous term)

Number of servers shipped **11,000** units (+5.7% compared to previous term)

Subscription handling volume **17,083** million yen (+4.0% compared to previous term)

iKAZUCHI handling volume **3,496** million yen (+43.5% compared to previous term)

■ Net sales ■ Operating profit ■ Operating profit margin



Review of the business

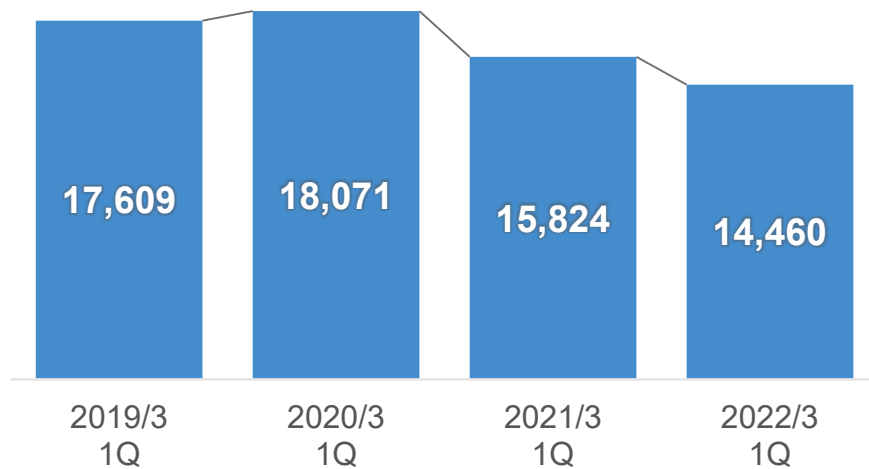
Corporate market

- The number of subscription service contracts for corporations and government offices increased against the backdrop of the building of corporate cloud environments and the shift to using services, but there were few large-scale projects nationwide and sales of PCs, etc., were sluggish.
- In the education market, sales expanded compared to the same period of the previous term due to ongoing projects related to the GIGA School concept

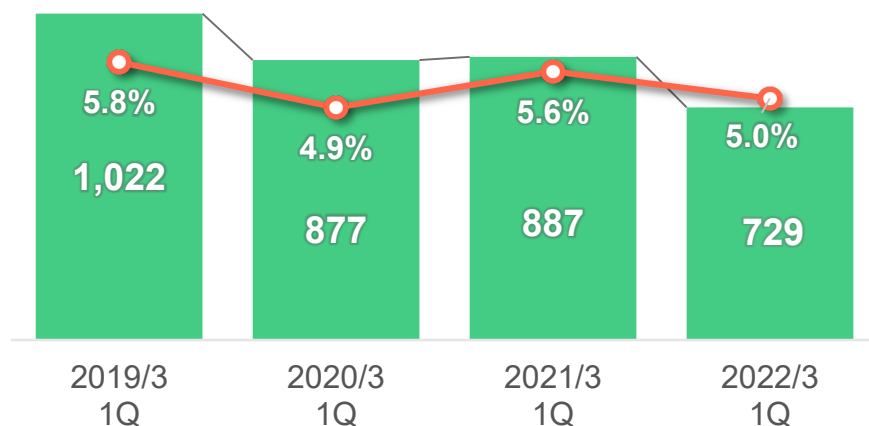
Consumer market

- Although demand related to telework and online learning continued, such as sales of printers for home-use increasing, sales of PCs and peripherals such as LCD monitors decreased compared to the previous term

(Million yen)



■ Net sales ■ Operating profit ■ Operating profit margin



Net sales

14,460 million yen (-8.6% compared to previous term)

Operating profit

729 million yen (-17.8% compared to previous term)

Review of the business

Synthetic Fibers and Rayon Divisions

- Although sales decreased due to the rebound from demand to last term for non-woven fabric for masks and sterilization sheets, synthetic fiber cotton for use in construction materials, etc., and rayon with a low environmental load trended well

Industrial Material Division

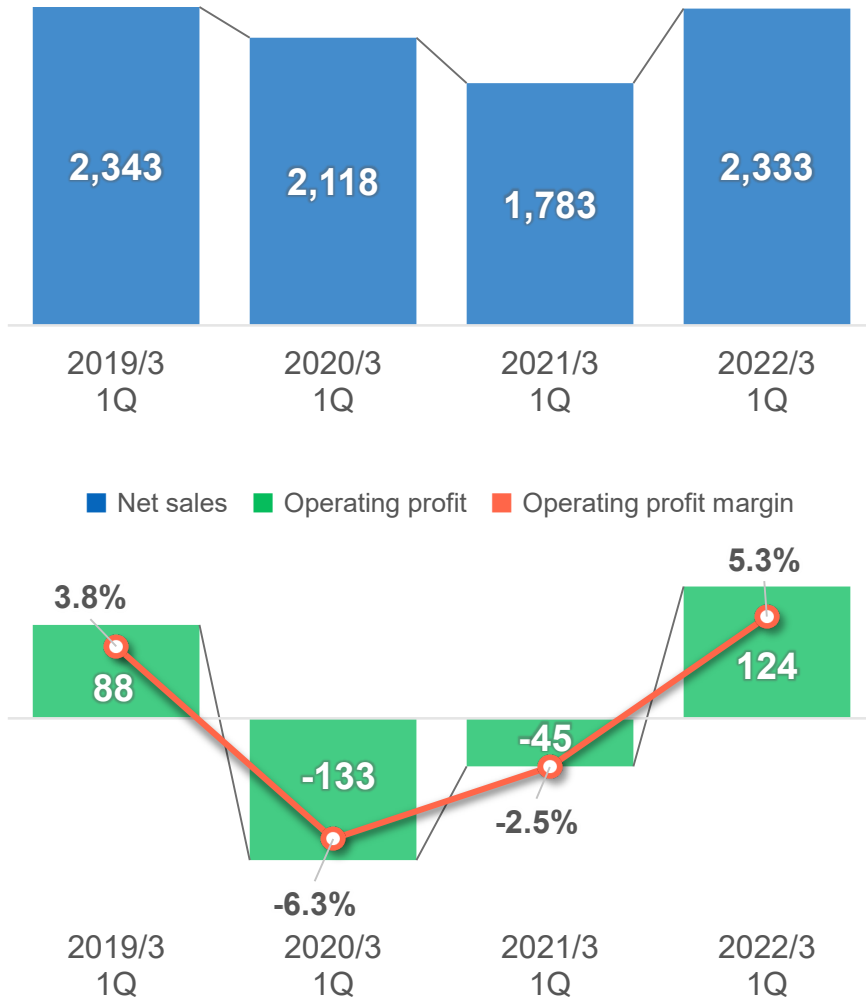
- Heavy fabric products such as the core tents and canvas continued to stagnate under the impact of the suspension of various events and a decrease in construction work

Clothing Products Division

- Sales of casual clothing struggled due to the impact of prolonged self-restraint on going out and store closures

Industrial Machinery Business

(Million yen)



Net sales

2,333 million yen (+30.8% compared to previous term)

Operating profit

124 million yen (+169 million yen compared to previous term)

Review of the business

Machine Tools Division

- While total orders received from April to June as reported by the Japan Machine Tool Builders' Association increased to 117.7% compared to the previous term, the recovery in core aircraft and railway-related sales was dull under the restriction on movement and orders were limited to an increase of 16.8% over the previous term
- Both revenue and profit increased due to increases in shipments to the energy and infrastructure industries, and service sales

Automatic Machinery Division

- Although customers continued to have a cautious attitude towards capital investment, orders received increased by 22.9% compared to the previous term
- Results improved significantly, partly because of sales of lines with multiple units

Consolidated Balance Sheet for the 1st Quarter of the Fiscal Year Ending March 2022 (Summary of Accounts P4-5)



(Million yen)	2021/3	2021/6	Change		2021/3	2021/6	Change
Current assets	331,461	274,522	(56,939)	Current liabilities	230,519	175,858	(54,660)
Cash and deposits	32,058	51,193	+19,134	Notes payable and accounts payable	188,483	140,810	(47,672)
Notes and accounts receivable, and contract assets (*)	246,897	158,553	(88,343)	Short-term loans payable	15,255	14,427	(828)
Goods and products	32,580	46,191	+13,611	Non-current liabilities	23,916	24,801	+885
Property, plant and equipment	39,172	39,126	(46)	Long-term loans payable	12,065	12,073	+7
Intangible fixed assets	2,696	2,584	(111)	Total liabilities	254,435	200,660	(53,774)
Investments and other assets	10,426	10,153	(273)	Total net assets	129,322	125,726	(3,595)
Total assets	383,757	326,387	(57,369)	Total liabilities and net assets	383,757	326,387	(57,369)

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

Notes and accounts receivable, and contract assets	246,897	->	158,553	(88,343)	Collection of DIS accounts receivable
Notes payable and accounts payable	188,483	->	140,810	(47,672)	Decrease in DIS accounts payable
Total loans	27,321	->	26,500	(821)	

Consolidated Profit Statement for the 1st Quarter of the Fiscal Year Ending March 2022 (Summary of Accounts P6)



(Million yen)	2021/3 1Q		2022/3 1Q		Change	Compared to previous term
	Results	Percentage	Results	Percentage		
Net sales	187,315		166,862		(20,452)	(10.9%)
Gross profit	15,666	8.4%	14,465	8.7%		
Selling, general and administrative expenses	11,036	5.9%	10,071	6.0%		
Operating profit	4,629	2.5%	4,393	2.6%	(236)	(5.1%)
Ordinary profit	4,786	2.6%	4,521	2.7%	(265)	(5.6%)
Extraordinary profit	712 *		97			
Extraordinary loss	128		0			
Quarterly profit attributable to owners of parent	4,290	2.3%	3,114	1.9%	(1,175)	(27.4%)

* Extraordinary profit in previous term Compensation for transfer of overseas plants of Fiber Business (**665** million yen)

[Reference] Medium-Term Management Plan

- 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

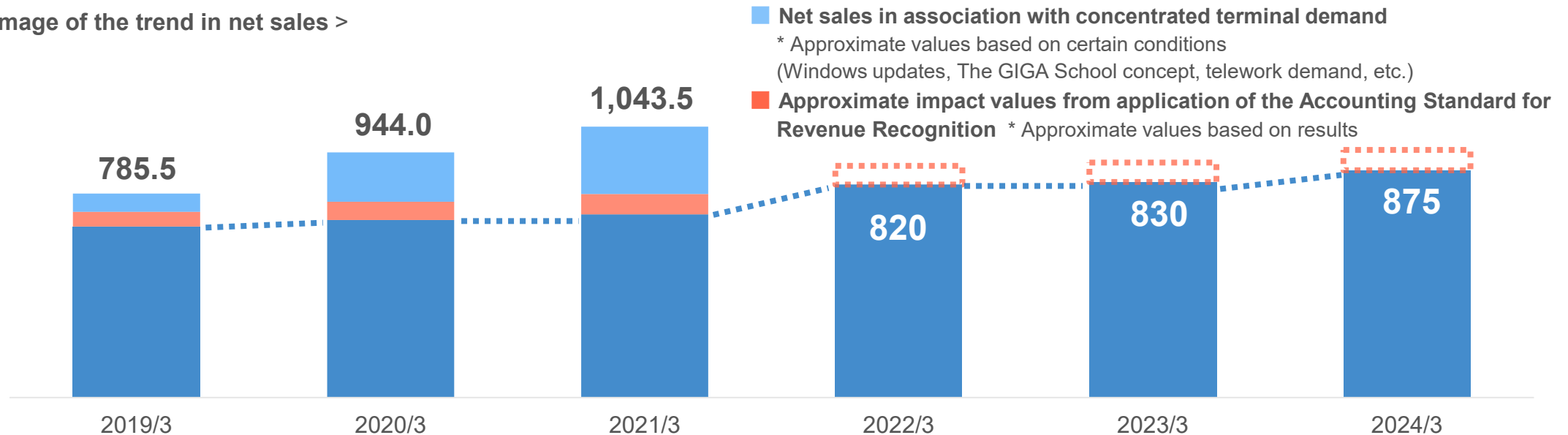
- 01 The creation of next generation growth drivers**
- 02 Contributions to the creation of a new society as a leading company**
- 03 Reform of management foundations**

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 >



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

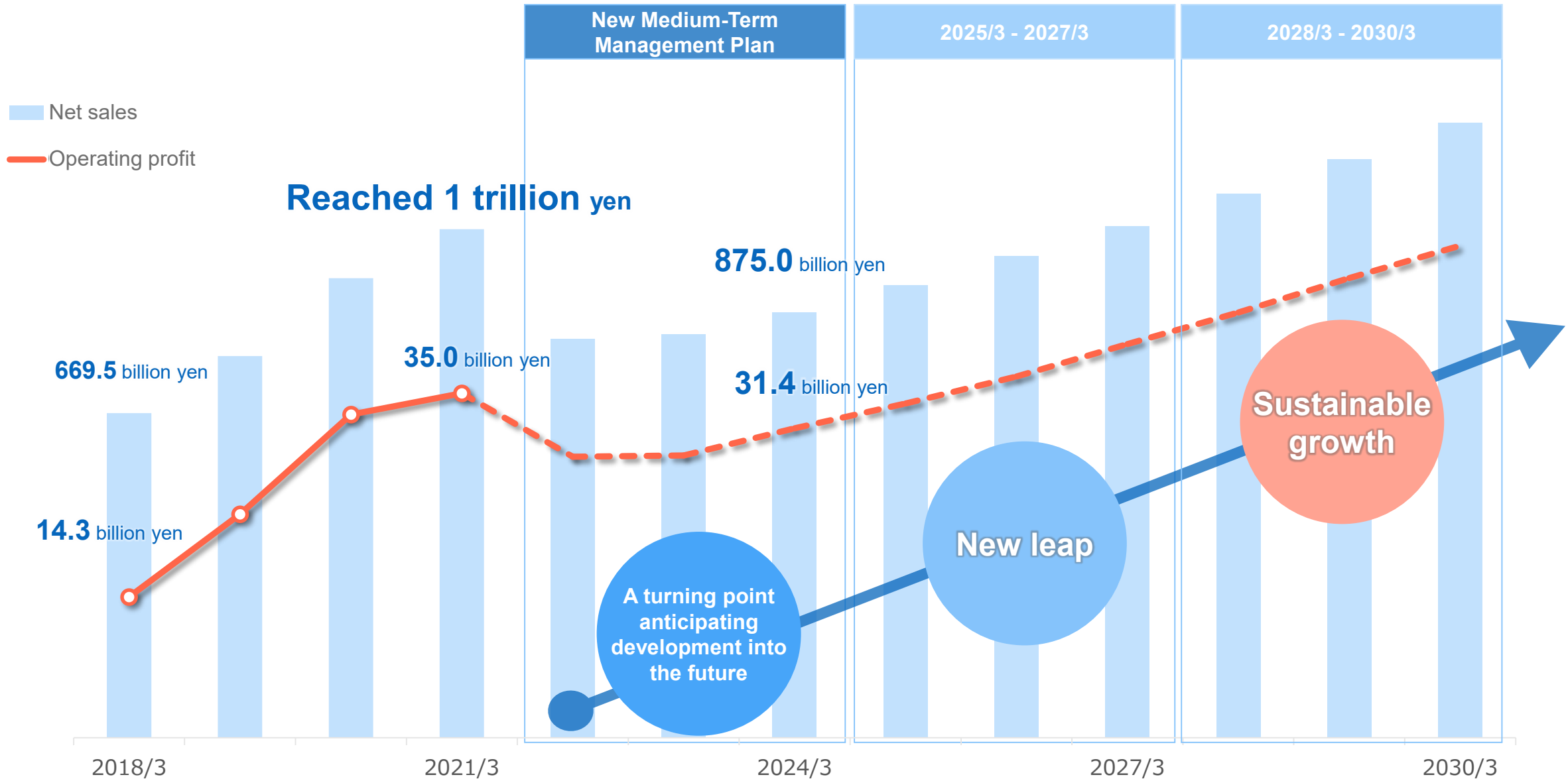
Basic policy

- 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>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>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>
<p>BY2021 Dividend forecast Interim 30 yen + term-end 30 yen</p>			<p>Currently acquiring treasury stock to a maximum of 2.0 billion yen Total acquisition maximum of 1.5 million shares / 1.56% Acquisition period May 14, 2021 ~ August 31, 2021</p>	

Medium to Long-Term Growth Image

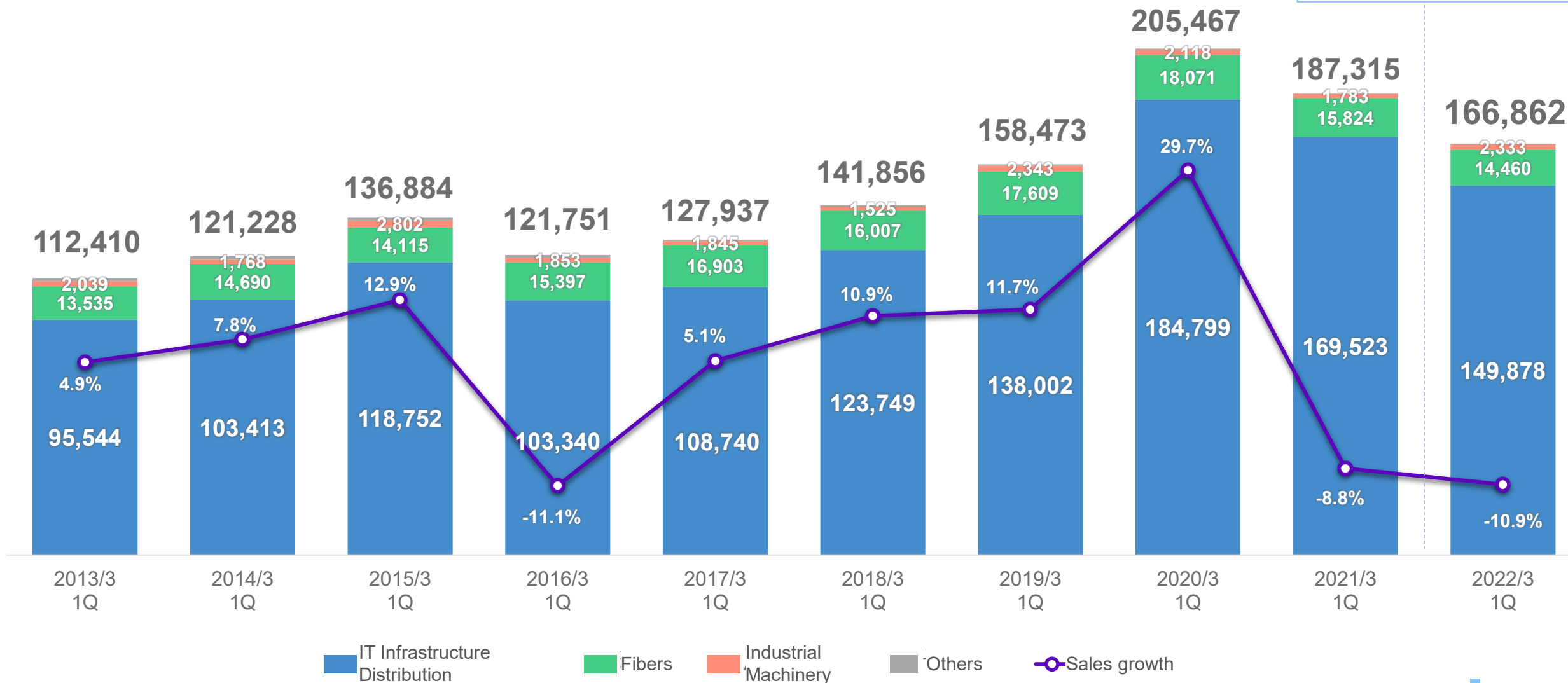


[References] Charts for Performance Trend

Consolidated Net Sales (1Q Cumulative)

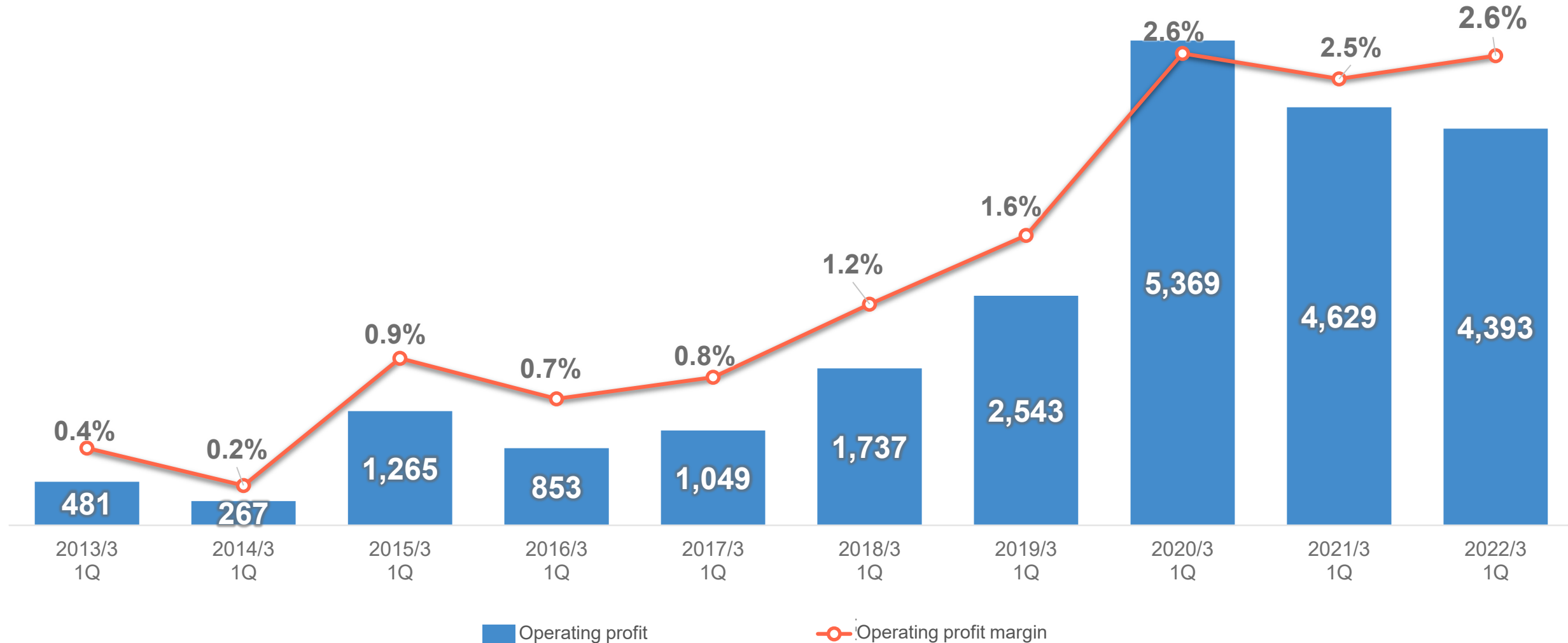
(Million yen)

Application of the Accounting Standard for Revenue Recognition
Impact: -17,378



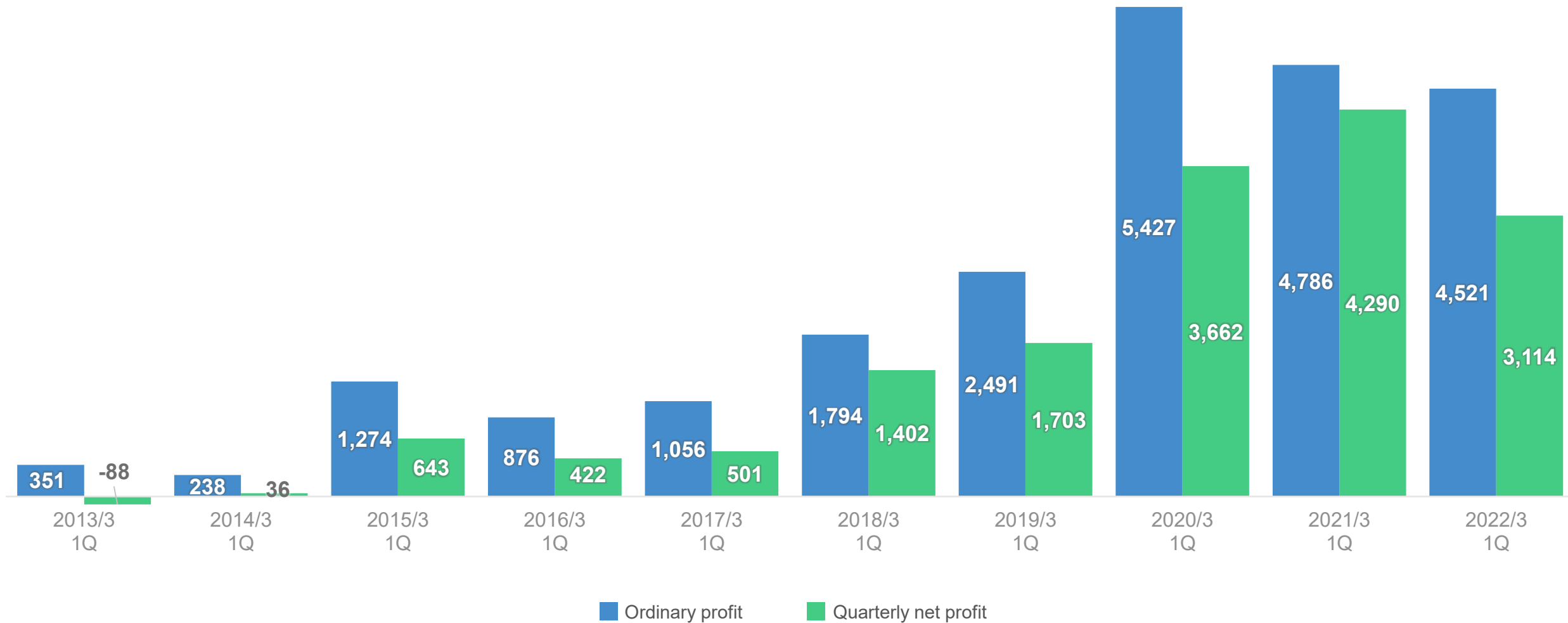
Consolidated Operating Profit (1Q Cumulative)

(Million yen)



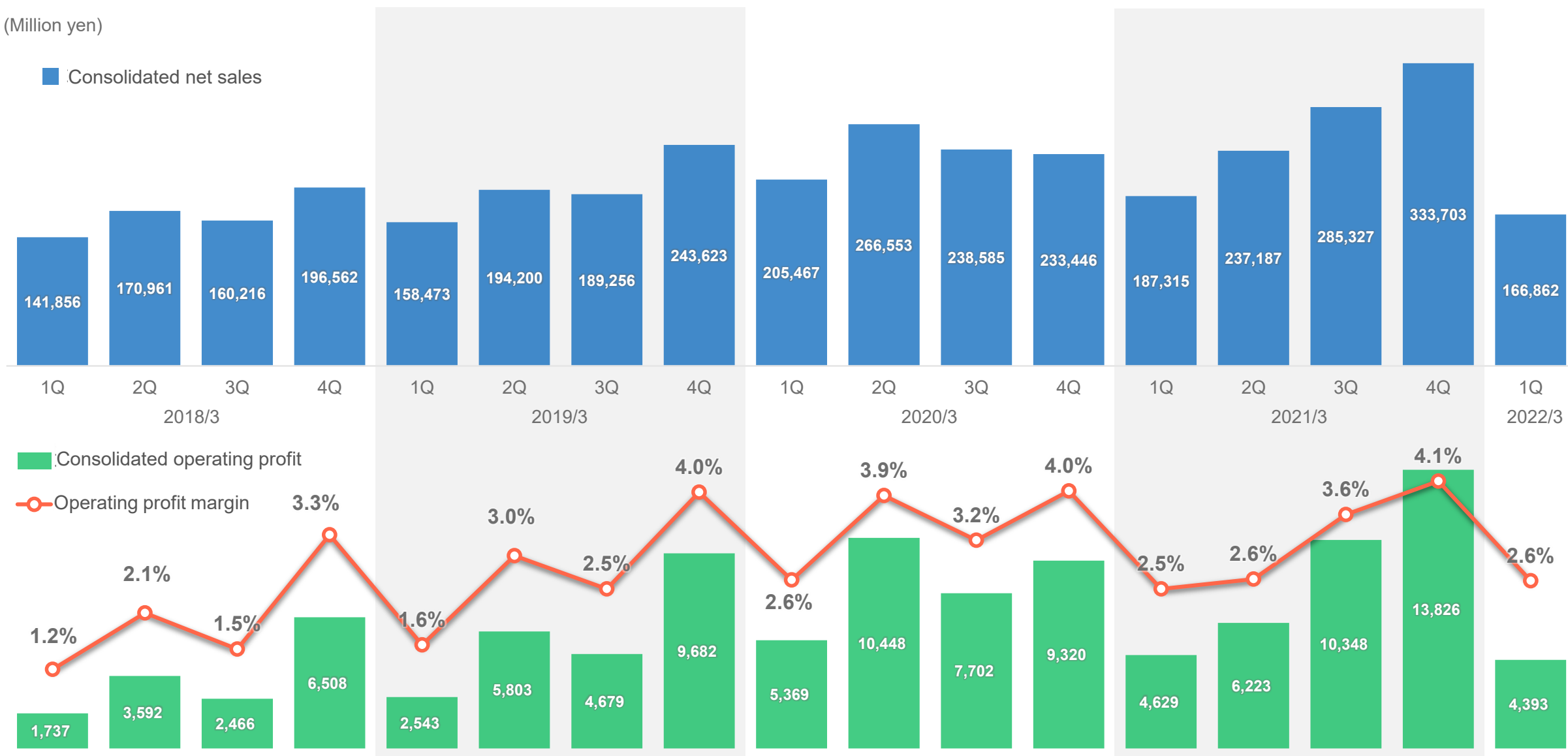
Consolidated Ordinary Profit and Consolidated Quarterly Net Profit (1Q Cumulative)

(Million yen)



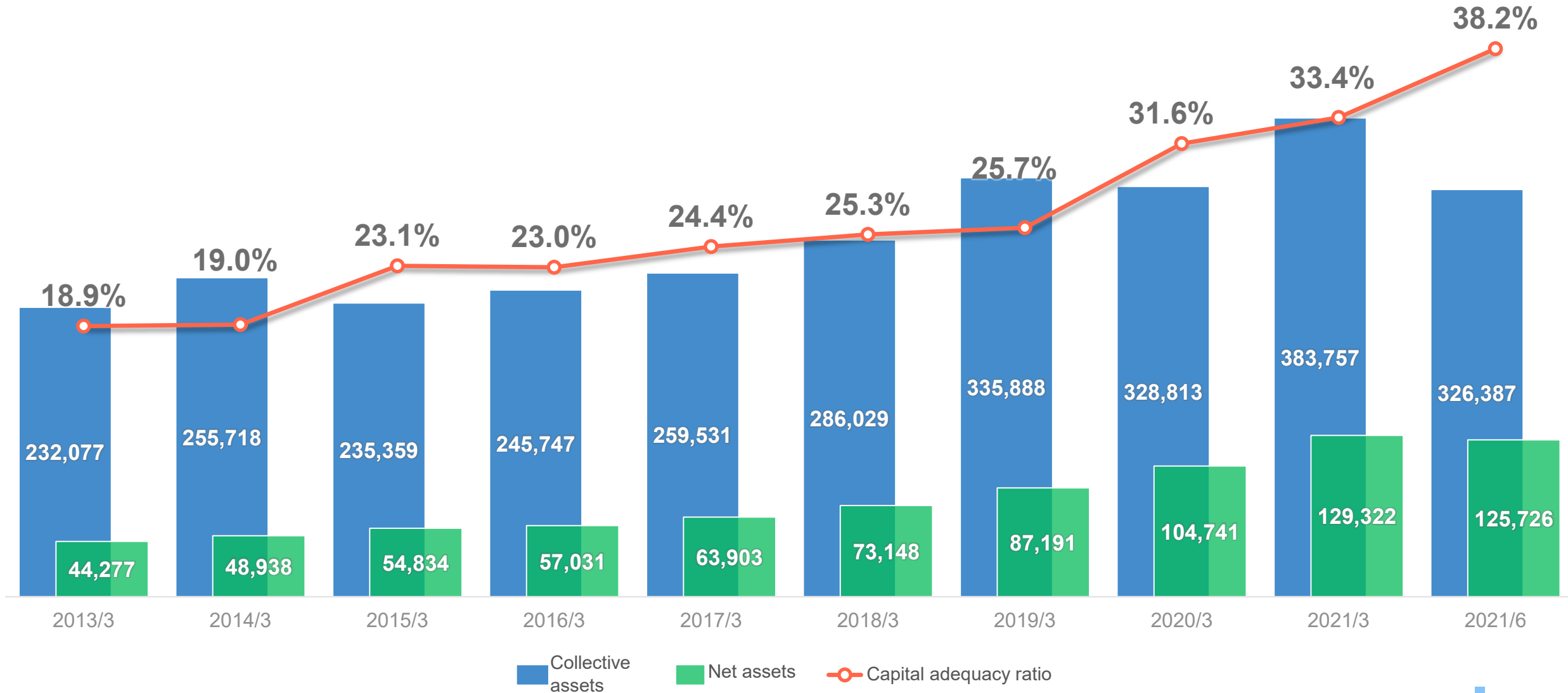
Quarterly Results

(Million yen)



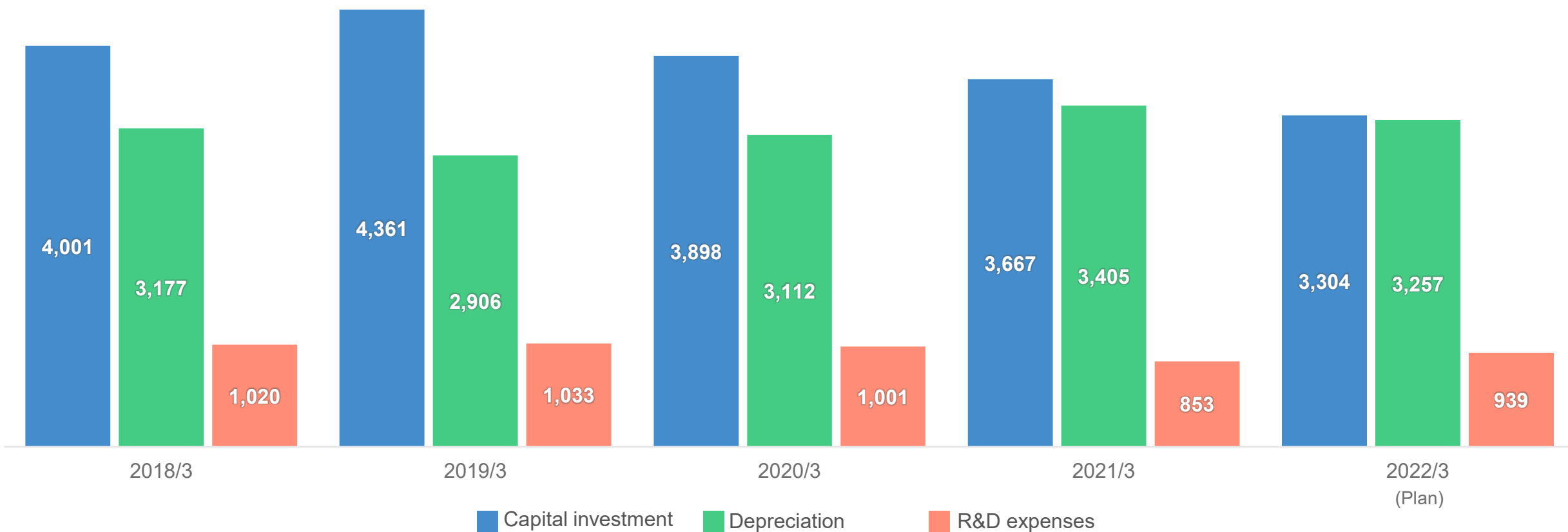
Consolidated Total Assets, Consolidated Net Assets and Capital Adequacy Ratio

(Million yen)



Capital Investment, Depreciation and R&D Expenses

(Million yen)



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Daiwabo Holdings Co.,Ltd.

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