

GCC Management™ analysis suggests a possible price target of 4,340 yen.

Focus on shareholder value as the No. 1 power source company due to the move to correct low P/B ratios

This report analyzes corporate value from the perspective of GCC Management™, a framework developed by J. Phoenix Research Corporation ("JPR") that emphasizes three elements: Growth (sales growth), Connection (improved human and business connections = higher return on capital), and Corporate value analysis from the perspective of GCC Management™, which emphasizes the three elements of Confidence (improved trust = lower business risk)."

Portable generator No.1, Welding machine No.1	Basic Report																						
<p>Denyo CO.,Ltd.("Denyo") is a company with a long history, founded in 1948, and its mainstay generators and welding machines have a history of about 60 years. The company's management philosophy is "Sansha no toku(three benefits)" and it contributes to social issues through the supply of its main product, generators. Specific examples include the supply of auxiliary power in places where there is no power infrastructure, hospitals where loss of power can endanger lives, and data centers, which are becoming increasingly important with the advancement of IT.</p> <p>In terms of growth potential, although rapid market growth is not expected, a certain level of demand has been secured for renewal of aging facilities, and in recent years, demand has increased due to heightened awareness of disaster prevention. In addition, needs are high in developing countries and other overseas markets, particularly in Asia, and overseas sales account for about half of the company's sales in FY3/2023, as demand in the U.S. is rising, and overseas sales have high potential for overseas expansion.</p>	<p>Written and Edited by J-Phoenix Research Inc. Yosuke Kashio</p>																						
Becoming the No. 1 power source company	Company Profile																						
<p>Denyo's strategy is to establish a well-balanced business structure with stable growth. Aim to become number one in the high-performance generator market in Japan and other parts of the world by leveraging its credibility as a pioneer in power sources and its sales network. The company will focus on expanding peripheral businesses and entering new businesses where it can maximize its expertise in generator manufacturing.</p> <p>Strengths of the company include an integrated production system, flexible response to customer requests, high performance, and durability. These strengths have enabled the company to build its current high market share.</p> <p>While the company contributes to society by supplying electricity, it also faces the dilemma of placing a burden on the environment due to CO2 emissions from engine-driven power generation. As a carbon-neutral measure, the company is working on the development of a hydrogen-fueled power generator, and is also making strides toward the next generation.</p>	<table border="1"> <tr><td>Location of Head Office</td><td>Chuo-ku, Tokyo</td></tr> <tr><td>Representative</td><td>Takanori Yoshinaga</td></tr> <tr><td>Date of Establishment</td><td>July 2, 1948</td></tr> <tr><td>Paid-in Capital</td><td>JPY 1,954millions</td></tr> <tr><td>Date of Listing</td><td>September 10, 1980</td></tr> <tr><td>URL</td><td>https://www.denyo.co.jp/</td></tr> <tr><td>Type of Business</td><td>Electronic equipment</td></tr> </table>	Location of Head Office	Chuo-ku, Tokyo	Representative	Takanori Yoshinaga	Date of Establishment	July 2, 1948	Paid-in Capital	JPY 1,954millions	Date of Listing	September 10, 1980	URL	https://www.denyo.co.jp/	Type of Business	Electronic equipment								
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Up to 2.2x upside depending on 10-year growth scenario	Key Indicators As of June 12, 2023																						
<p>Shareholder value was estimated using the "excess profit method" (see "Appendix 2") according to the GCC Management™ framework. As a result, the share price was estimated to be 4,340 yen, incorporating 10 years of growth value under the assumption that the concept of the value creation process will be implemented and realized. There is a good possibility that long-term growth value will be factored into the stock price in the next few years due to the trend toward correction of undervalued stocks.</p>	<table border="1"> <tr><td>Stock Price</td><td>JPY 1,916</td></tr> <tr><td>52-week high</td><td>JPY 2,000</td></tr> <tr><td>52-Week Low</td><td>JPY 1,354</td></tr> <tr><td>Number of Shares Outstanding</td><td>22,859,660 stocks</td></tr> <tr><td>Trading Unit</td><td>100 stocks</td></tr> <tr><td>Market Capitalization</td><td>JPY 43,799 million</td></tr> <tr><td>Company Projected Dividend</td><td>JPY 51</td></tr> <tr><td>Estimated Net Income Base EPS</td><td>JPY 179</td></tr> <tr><td>Forecast PER</td><td>10.68 times</td></tr> <tr><td>Actual BPS (As of March 31, 2023)</td><td>JPY 3193.67</td></tr> <tr><td>Actual PBR</td><td>0.60 times</td></tr> </table>	Stock Price	JPY 1,916	52-week high	JPY 2,000	52-Week Low	JPY 1,354	Number of Shares Outstanding	22,859,660 stocks	Trading Unit	100 stocks	Market Capitalization	JPY 43,799 million	Company Projected Dividend	JPY 51	Estimated Net Income Base EPS	JPY 179	Forecast PER	10.68 times	Actual BPS (As of March 31, 2023)	JPY 3193.67	Actual PBR	0.60 times
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For more information on the "Conceptual Design" "Implementation Design" and the evaluation system, please refer to Reference 1. For those new to JPR reports at the end of this document.

Business Performance Trends	Net Sales (million yen)	YoY %	Operating income (million yen)	YoY %	Ordinary income (million yen)	YoY %	Net income (million yen)	YoY %	EPS (yen)	Share Price	
										High (yen)	Low (yen)
Actual results for the FY March 2019	55,554	10.7%	4,201	7.7%	4,592	9.7%	3,167	14.7%	149.83	1,982	1,236
Actual results for the FY March 2020	62,887	13.2%	6,057	44.2%	6,202	35.1%	4,071	28.5%	194.32	2,225	1,310
Actual results for the FY March 2021	55,006	-12.5%	5,332	-12.0%	5,645	-9.0%	3,860	-5.2%	185.13	2,649	1,723
Actual results for the FY March 2022	55,168	0.3%	3,653	-31.5%	4,029	-28.6%	2,752	-28.7%	132.02	2,321	1,591
Actual results for the FY March 2023	64,311	16.6%	4,874	33.4%	5,180	28.6%	3,634	32.0%	175.64	1,719	1,361
Full Year Plan for FY March 2024	65,000	1.1%	5,000	2.6%	5,350	3.3%	3,700	1.8%	179.33	-	-

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1. Investment Summary

Shareholder value analysis

Maximum upside to market capitalization estimated at 2.2x

Estimate based on excess profit method

Maximum upside of 2.2x on the realization of growth scenario

JPR estimated shareholder value using the Excess Profit Method (see "Appendix 2") based on the GCC Management™ framework, taking into account the future potential of Denyo's business development. The following chart visualizes the framework of the qualitative and quantitative stories and the results of the estimation. Assumptions are explained on the following pages.

Shareholder Value Analysis (100 millions of Yen)

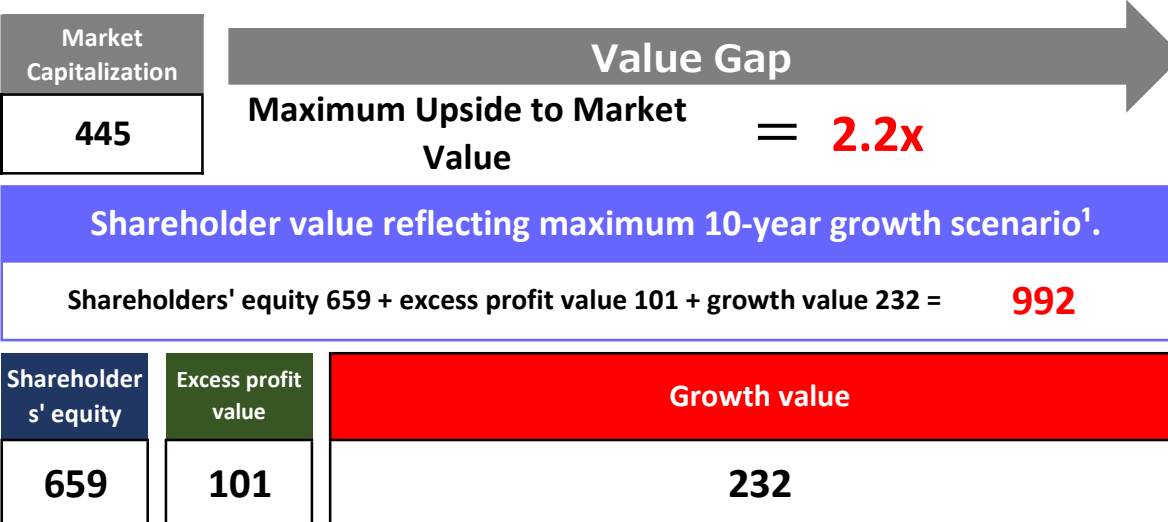
Qualitative Story Outline

Growth : Powering up for the future

Connection: Become the No. 1 power source company

Confidence: A safe and secure company that supports social infrastructure

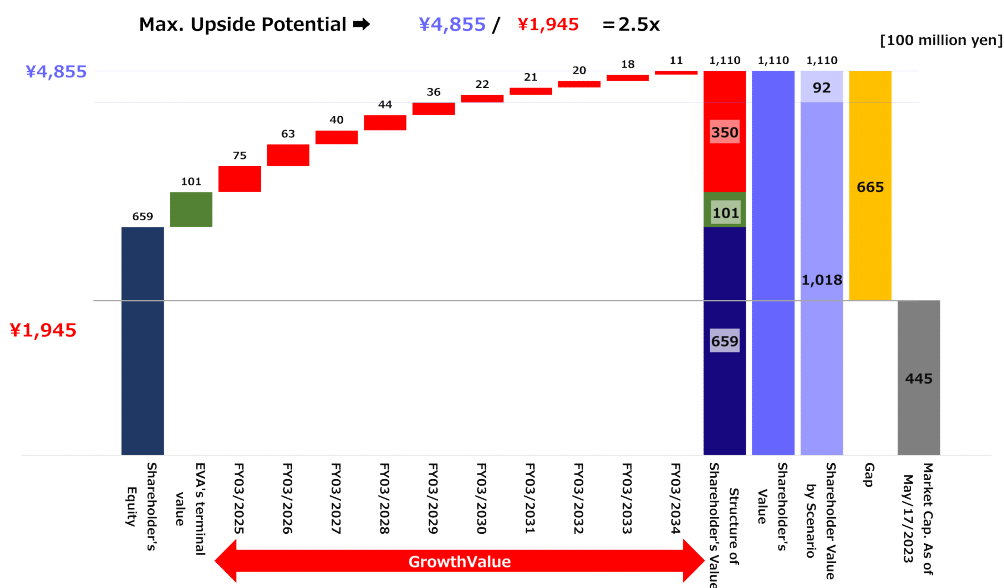
Quantitative Story Outline



[Source] Compiled by JPR

1: Fractions do not match due to rounding.

Shareholder Value Structure and Value Gap Analysis Using the Excess Profit Method



Shareholder Value Structure and Value Gap Analysis Using the Excess Profit Method (details)

[¥100mn]	Current Year 2024.03	1 year later 2025.03	2 years later 2026.03	3 years later 2027.03	4 years later 2028.03	5 years later 2029.03	6 years later 2030.03	7 years later 2031.03	8 years later 2032.03	9 years later 2033.03	10 years later 2034.03	Terminal Value
Sales	650	670	690	710	732	754	772	786	799	808	816	
Operating income	50	54	59	64	70	75	77	79	80	81	82	
Operating margin	7.7%	8.0%	8.5%	9.0%	9.5%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Sales growth rate	1.1%	3.0%	3.0%	3.0%	3.0%	3.0%	2.4%	1.9%	1.5%	1.2%	1.0%	
NOPAT margin	5.3%	5.5%	5.9%	6.2%	6.6%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	
Invested capital turnover ratio	75.0%	74.2%	73.0%	72.8%	72.3%	71.8%	71.6%	71.1%	70.6%	70.0%	70.0%	
WACC	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.876%
ROIC = NOPAT margin ÷ invested capital net sales ratio	7.1%	7.5%	8.1%	8.6%	9.1%	9.6%	9.7%	9.7%	9.8%	9.9%	9.9%	
ROIC / WACC (value created with the original hand of 1)	¥1.2	¥1.3	¥1.4	¥1.5	¥1.5	¥1.6	¥1.6	¥1.7	¥1.7	¥1.7	¥1.7	
NOPAT	34.57	37.03	40.53	44.20	48.05	52.10	53.35	54.37	55.21	55.89	56.44	
Invested capital × WACC	28.63	29.18	29.57	30.37	31.08	31.80	32.44	32.87	33.12	33.27	33.60	
EVA	5.94	7.85	10.9554	13.82	16.97	20.30	20.91	21.50	22.09	22.62	22.84	
EVA = NOPAT - invested capital × WACC	5.94	7.85	10.96	13.82	16.97	20.30	20.91	21.50	22.09	22.62	22.84	
Value created in each year	101	33	53	49	54	57	10	10	10	9	4	
Discount Rate	100%	94%	89%	84%	80%	75%	71%	67%	63%	60%	56%	
Present value of EVA		101.043	31	47	41	43	43	7	7	6	5	2
Invested capital ① Origin	487											
Over profit value (Permanent value of EVA of this ter→)	101											
Growth value (Present value of increase in EVA) ③	232											
Non-business asset value ④	252											
Corporate value = ① + ② + ③ + ④	1,073											
Interest-bearing debt, etc.	-80											
Shareholder value	992											

Source: JPR

*For NOPAT, since it is difficult to estimate the corporate tax rate, a conservative effective corporate tax rate of 30.9% is applied.

**3 qualitative and quantitative information assumptions set for estimating shareholder value*1
(in 100 millions of Yen)**

Growth : Powering up for the future

Values/Worldview	Value and growth potential	Net sales				
<p>Powering up for the future</p> <p>Denyo provides generators and welding machines with a focus on customer, dealer, and self-development, guided by the "Three-Party Advantage" philosophy. They address social issues related to electricity supply in various contexts, including remote islands, developing countries with unstable power, and critical facilities like hospitals and data centers.</p>	<p>Contributing to infrastructure by providing a stable supply of electricity</p> <p>Denyo's main goal is to create a safe and prosperous society through infrastructure development, disaster mitigation, and reliable electricity supply. They prioritize tackling social issues and ensuring stable power sources. Additionally, Denyo actively promotes environmentally-friendly initiatives in engine power generation to meet the needs of future generations.</p>	<p>CAGR of 2.3% is expected</p> <table border="1"> <thead> <tr> <th>FY2024</th> <th>FY2034</th> </tr> </thead> <tbody> <tr> <td>650</td> <td>816</td> </tr> </tbody> </table> <p>Assumption of moderate growth in sales, including overseas expansion, since domestic sales already have a high market share.</p> <p>Growth value</p> <p>232</p>	FY2024	FY2034	650	816
FY2024	FY2034					
650	816					

Connection: Become the No. 1 power source company

Strategies	Business models	ROIC				
<p>Becoming the No. 1 power source company</p> <p>Denyo aims for stable growth and a balanced business structure. They strive to lead the high-performance generator market in Japan and globally, leveraging their reputation and sales network as a power source pioneer. The company also focuses on expanding into related industries and entering new business areas that align with their expertise in generator manufacturing.</p>	<p>Leveraging our strengths to expand market share</p> <p>Denyo products are manufactured under an integrated production system to meet customer requirements. Demand is high in places where high performance and durability are required, and the company is working on next-generation developments such as DX and carbon-neutral products. They are also working to develop the human resources needed to support these efforts.</p>	<p>Expected to improve by 2.8 points</p> <table border="1"> <thead> <tr> <th>FY2024</th> <th>FY2034</th> </tr> </thead> <tbody> <tr> <td>7.1 %</td> <td>9.9 %</td> </tr> </tbody> </table> <p>Assumption is that the ratio of invested capital to sales will be fixed at about 70%, and that cost of sales and SG&A expenses will gradually diminish.</p> <p>Excess gain value</p> <p>101</p>	FY2024	FY2034	7.1 %	9.9 %
FY2024	FY2034					
7.1 %	9.9 %					

Confidence: A safe and secure company that supports social infrastructure

Financial sustainability	Contribution to social sustainability	WACC
<p>Healthy financial balance</p> <p>The company's performance has been stable over the past 10 years and financial stability has been maintained. The company is prepared to raise funds urgently for growth. In addition to investment for growth, the company also aims for stable shareholder returns, regardless of single-year performance.</p>	<p>Stable power source supply</p> <p>Denyo's business has a notable social impact by providing power and emergency solutions to areas lacking electricity or experiencing frequent power outages. Their contributions extend to both domestic areas and developing countries with limited electric power infrastructure.</p>	<p>Maintenance</p> <p>5.9 %</p> <p>Assumption of no change in WACC based on stable business foundation</p> <p>Capital Stockholders' Equity</p> <p>659</p>

*1Compiled by JPR based on its own projections of post-company plan estimates based on company hearings.

2. Overview

Company Profile

Company Name	Denyo Co.,Ltd. (Japanese name : デンヨー株式会社)
Establishment	July 2, 1948
Representative	Takanori Yoshinaga
Head Office Location	2-8-5 Nihonbashi Horidome-cho, Chuo-ku, Tokyo
Capital	JPY 1,954millions
Number of Employees	1,381 (consolidated, as of March 31, 2023)
Fiscal Year End	March
Business	Manufacture and sale of generators, welding machines, compressors, etc.
Date of Listing	September 10, 1980
Stock exchange where listed	Tokyo Stock Exchange Prime Market [Securities Code: 6517]

Source: Prepared by JPR based on company data.

History

Year	Month	Details
1948	7	Nihon Denki Yousetsu Kizai Co., Ltd. was established in Irifune-cho (now Shintomi-machi), Tokyo.
1959	3	Developed and started production of Japan's first high-speed engine welding machine.
1966	7	Company name changed to Denyo.
1976	3	P.T. Denyo Indonesia (now P.T. Dein Prima Generator), a joint venture, was established in Indonesia.
1981	5	United Machinery Services Pte. Ltd. (currently Denyo United Machinery Pte. Ltd.), a joint venture with local capital, was established in Singapore.
1983	2	Listed on the Second Section of the Tokyo Stock Exchange.
1984	5	Entered the water-related equipment field and developed and started production of engine high-pressure water pumps and drain cleaning equipment as a first step.
1988	4	Entered into new business, developing and marketing cogeneration systems and uninterruptible power supplies. Acquired shares of DBS Corporation (currently Denyo Kosan Co., Ltd.).
1991	10	Entered the field of elevating vehicles and started sales.
1992	12	Established Denyo America Corporation, a subsidiary in the U.S.
1995	8	Denyo Manufacturing Corporation, a joint venture, was established in the U.S.
2000	3	Listed on the First Section of the Tokyo Stock Exchange
	6	Established Denyo Asia Pte. Ltd. as a subsidiary in Singapore
2007	6	Acquired Nishinippon Generator Corporation (currently Nishihatsu Corporation) as a subsidiary through stock acquisition
	10	Denyo Europe B.V. established in the Netherlands
2009	7	Merged Denyo Techno Service Co.
2010	5	Established subsidiary Denyo Vietnam Co.
2020	2	Established subsidiary Denyo Trading Vietnam Co.
2022	4	Shifted to the prime market of the Tokyo Stock Exchange.

Source: Prepared by JPR based on company data.

Major Consolidated Subsidiaries and Group Companies

Business Line	Company Name	Business Outline	Capital
Denyo Kosan Co., Ltd.	Sales of parts for industrial electrical machinery and equipment, etc.	50 million yen	100%
Nishihatsu Co., Ltd.	Manufacture and sale of industrial electrical machinery and appliances (generators, etc.)	50 million yen	100%
Denyo America Corporation	Sales of parts for industrial electrical machinery and equipment, etc.	US\$5 million	100%
Denyo Manufacturing Corporation	Manufacture and sales of industrial electrical machinery and equipment (generators, etc.)	US\$6 million	80%
Denyo Asia Pte. Ltd.	Supervisory and management operations in Asia	600 million yen	100%
Denyo United Machinery Pte. Ltd.	Sales and lease/rental of industrial electric machinery and equipment (generators, etc.)	S\$3 million	76%
Denyo Europe B.V.	Sales of industrial electric machinery and equipment, etc.	4 million euros	100%
Denyo Vietnam Co.,Ltd.	Manufacture and sales of industrial electric machinery and equipment (generators, etc.)	US\$ 10 million	100%
P.T. Dein Prima Generator	Manufacture and sale of industrial electric machinery and equipment, etc.	13 billion rupiah	51%
New Japan Machinery Corporation *Equity-method affiliates	Sales and lease/rental of industrial electric machinery and equipment, etc.	495 million yen	16%

Source: Compiled by JPR based on company data

Major Business and Capital Alliances

Year	Month	Company	Purpose
2020	9	TOYOTA	The two companies will jointly develop a fuel cell powered vehicle (FC powered vehicle) that generates electricity using hydrogen, and will work toward practical application through demonstration operations in the future.
2021	11	Komatsu	Komatsu will provide engines for generators and technical cooperation in the field of engines for Denyo's development of a 250kW hydrogen-fired mixed combustion generator.

Source: Compiled by JPR based on company data.

3. Growth Story and Assessment through the GCC Management™ Framework

Growth

Values and worldview are consistent and appropriate for social issues

The value provided is highly socially beneficial

Domestic market grows moderately.

Overseas, needs are high in regions with unstable power supply

Powering up for the future

Values and worldview

Management philosophy: The three benefits

Denyo's management philosophy, "Sansha no Toku" means that "customers," "dealers" and "manufacturers (Denyo)" aim for prosperity together through their products.

Background social issues

There are many places without electricity at construction sites and evacuation centers in disaster areas. There are also many places in some countries and regions where the power supply is unstable due to the level of economic development. Furthermore, hospitals, data centers, factories, and other facilities need a stable power source, as power outages due to disasters pose a serious threat to lives and livelihoods.

Value provided

Denyo aims to contribute to building a safe, strong, and prosperous society through infrastructure development, disaster prevention and disaster mitigation, etc., by providing a stable supply of high-quality electricity to places where stable power cannot be secured or emergency power sources are needed, as identified in the social issues.

Growth potential

Generators: Domestic market size of portable type: 20-25 billion yen

Steady growth is expected from construction for aging infrastructure, urban development, and semiconductor factories.

Generators: Domestic disaster prevention ,emergency market size: 30-35 billion yen

Due to the frequency of natural disasters in recent years, the base of the emergency generator market for BCP measures is expected to continue to expand.

Domestic market size for engine welding machines: 6-7 billion yen

Construction and infrastructure aging countermeasure projects are expected, but on-site welding is slightly decreasing (factory welding and bending are increasing) due to a shortage of welders and other factors.

Overseas market outlook for portable generators

U.S.: Steady due to aging infrastructure, Olympic demand.

Asian: Increasing demand for infrastructure construction, resource development, and power outage countermeasures.

Europe and Middle East: firm in Middle East, tough in Europe.

Connection

Basic strategy is expansion in current business portfolio.

Particularly competitive in Japan, building brand strength.

Market reputation of the products offered is high

Become the No. 1 power source company

Strategy design

The Denyo Group aims to become number one in the high-performance generator market in Japan and other parts of the world by leveraging its credibility and sales network as a pioneer in power sources, and will also focus on expanding peripheral businesses and entering new businesses where it can maximize its expertise in generator manufacturing.

■ Target market share and current status

Product	Current market share	Targets	Competition
Portable generators	70% (1st place)	Maintain top market share	HOKUETSU INDUSTRIES
Disaster prevention generators	25% (2nd place)	Expand market share	YANMAR ENERGY SYSTEM 45%(1st place) , TOKYO ELECTRIC INDUSTRY20%(3rd)
Welding machines	55% (1st place)	Maintain top share	YAMABIKO
Portable generators (overseas)	Unknown	Expand sales in markets with high quality needs	Caterpillar, Cummins, and others

Business model

Positioning on the value chain



Integrated production system

For its mainstay portable generators and welding machines, the company develops and manufactures most parts in-house, including the generator body, which is the heart of the generator, with the exception of the engine, and performs everything from assembly to finishing of the engine generator.

Flexible response to customer requirements

Engines are basically procured from high-performance Japanese engine manufacturers (Yamaha, Honda, Yanmar, Kubota, Isuzu, Komatsu, etc.) according to Denyo's own specifications. This allows the company to flexibly respond to customer specifications.

Popular in the used equipment market for its high quality and durability

High quality and durability: Reduced risk of repair in polar regions where immediate repair is difficult, and the fact that rental companies can reuse Denyo products by reselling used equipment at high prices also serve as incentives to purchase Denyo products.

Service network

In Japan, a nationwide service network has been established to provide after-sales service.

**Also implemented
measures for next
growth**

Other initiatives to enhance the business model

<p>DX Initiatives</p>	<p>The company is also focusing on systems that can connect generators installed at multiple sites or remote locations via the Internet, enabling remote operation, such as startup and shutdown, as well as remote monitoring of fuel levels and failure detection, which until now had to be checked by a person visiting the site. The company is also working on the development and marketing of the industry's first generator with an operation data recording function in Japan, mainly for rental companies, which are its main customers.</p>
<p>Intellectual Property Initiatives</p>	<p>In the mid- to long-term, the company will strengthen R&D (investment) in hydrogen and other next-generation energy-compatible products and battery products in order to become carbon neutral. In addition, in order to maintain the top domestic market share for generators and welding machines, the company will place emphasis on acquiring patents. Overseas, emphasis will be placed on preventing damage to the value of the Denyo brand (trademark infringement), which stands for high-quality, highly durable generators.</p>
<p>Human Resources Initiatives</p>	<p>Aim to establish and operate a personnel system appropriate for a company where each and every employee who shares the corporate culture and management philosophy can play an active role while feeling "job satisfaction. Work to improve the human resource development policy and the working environment on an ongoing basis, and promote human resource diversity.</p>

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Confidence

Healthy financial balance

Providing electricity to places where electricity supply is essential is a very high social contribution and can make a contribution on a global basis.

Social contribution rating: 90%.

Safe and secure company supporting social infrastructure

Financial stability: Highly stable

Financial condition

Only borrowings that can be repaid immediately; virtually debt-free management.

Funding policy

The Company believes that maintaining financial stability is important in an uncertain economic environment, and its basic policy is to maintain a strong financial position while ensuring sufficient liquidity of funds for future business development. The company's basic policy is to finance its growth investments with cash flow from operations and cash on hand. However, in preparation for sudden capital needs, the company maintains flexibility and stability in fund procurement by concluding commitment line agreements with banks with which it has business relationships.

Dividends policy

While making R&D and capital investments to maintain and enhance product competitiveness, improve profitability, and strengthen the company's financial position, the company recognizes the importance of providing a higher level of returns to shareholders and has adopted a basic policy of distributing results by comprehensively considering business performance and dividend payout ratios. Based on this basic policy, the company returns profits to shareholders by taking into consideration the total return ratio, which is the sum of dividends and share buybacks, and by emphasizing stable dividends that are not overly dependent on performance in a single fiscal year.

Social contribution: Meeting the need for electric power

Contribution as an auxiliary power source to respond to emergencies

Today, many things are powered by electricity, so a power outage would have a major impact. For example, the stoppage of social infrastructure such as railroads and data centers would disrupt daily life. A power outage at a hospital can also be fatal. In the corporate sector, the suspension of operations at factories and other facilities will affect business activities. Emergency power supplies are always installed in such places and are a necessity for society.

Contribution in places where electric power infrastructure is underdeveloped

Electricity is convenient, but it does not reach everywhere due to the large scale and investment required for infrastructure such as power plants and power grids. Generators are used as a valuable source of power in places where power infrastructure is not yet developed, such as civil engineering and construction sites, resource development sites, remote islands and mountainous areas, and evacuation centers in disaster-stricken areas.

Contributing to energy issues in developing countries

According to a 2017 International Energy Agency (IEA) study, there are approximately 1 billion people worldwide without access to electricity. Most of these people belong to developing countries, where the lack of electricity leads to further widespread In these countries, generators are also a valuable source of electricity.

4. Working toward carbon neutrality

Strategies for the future

Conceptual design.

Progress: 90%.

Implementation design

Progress: 20%.

Reflection of results in Progress: 10%.

Utilize alliances as well

Working toward carbon neutrality

Conceptual design

While engine generators, Denyo's mainstay products, contribute to society in terms of power supply, they also impose an environmental burden through CO2 emissions due to the nature of the engine. Although their environmental impact is limited due to their many uses as auxiliary power sources, DENYO recognizes that global environmental issues are also important management issues, and will promote carbon neutrality initiatives.

Mounting design

Denyo believes that fuel cells and other hydrogen society initiatives are effective in reducing environmental impact. We will attempt to convert battery power from gasoline and gas, which emit CO2 when burned, to hydrogen, which emits no CO2, as a major solution.

Achievements

In the development of fuel cell vehicles with TOYOTA and hydrogen-mixed combustion generators with KOMATSU, the company is also promoting efforts through alliances.

Examples

Product	Overview	Assumed applications
Fuel Cell Portable Power Generator	<ul style="list-style-type: none"> - Adopted for the Ministry of the Environment's "Pamphlets for Low Carbon Technology Research and Development Program" - Newly developed and equipped with a power conditioner dedicated to fuel cells - Demonstration operation to begin in June 2021. 	Civil engineering and construction work, power source for daily life in the event of a disaster, TV broadcasts and various events, etc.
Hydrogen Mixed Combustion Generator	<ul style="list-style-type: none"> - Operates at 50% hydrogen mixing ratio with diesel oil - Reduces CO2 emissions by 50% compared to using only diesel oil as fuel - Aiming for mass production of 250kW hydrogen co-firing generators by 2023. 	Private consumption using byproduct hydrogen, power source for power outage countermeasures, etc.
Hydrogen Fired Generator	<ul style="list-style-type: none"> - Fueled only by hydrogen and emitting no CO2 - Starting with the development of the 45kVA class, which is in the volume zone - Aiming to launch in 2025 or later. 	Civil engineering, construction, port construction, TV broadcasts, various events, leisure, etc.
LED floodlights with mobile battery	<ul style="list-style-type: none"> - No noise or CO2 emissions - Uses removable cartridge type lithium-ion batteries - Long operating time. 	Nighttime construction, events, etc.

5. Summary of Business Results for 4Q FY3/2023

Financial summary

Sales reach record high

Generators drove sales

Strong sales of generators in the U.S. and Asia

Cost increase absorbed by the results of initiatives

Record high sales

Overall summary (consolidated)

Sales reached a record high of 64,311 million yen (+16.6% y-o-y). Operating income was 4,874 million yen (+33.4% y-o-y).

Sales (consolidated)

By product

In generators, shipments of portable generators were strong in Japan, and overseas, sales to the U.S. and Asian markets increased. As a result, sales reached 53.7 billion yen (+22.7% y-o-y).

Sales of welding machines were 4,401 million yen (-8.9% y-o-y), partly due to difficulties in procuring some parts.

Sales of compressors for the U.S. market increased to 727 million yen (+0.0% y-o-y), despite a decrease in domestic sales.

In the Others segment, shipments of self-propelled lifters increased, but sales of parts associated with the products declined, resulting in sales of 5,482 million yen (-6.4% y-o-y).

By region

The U.S. led the way with 21,617 million yen (+65.6% y-o-y), followed by Asia with 1,306 million yen (+28.4% y-o-y). Others amounted to 2,547 million yen (-11.8% y-o-y).

Operating income (consolidated)

The SG&A-to-sales ratio was 13.6% (-1% y-o-y), and operating income was 4,874 million yen, and operating margin was 7.6% (+1% y-o-y), partly due to the success of reflecting some of the cost increases in selling prices.

Balance sheet (consolidated)

Current assets increased 4,644 million yen mainly due to an increase in inventories, etc. Fixed assets increased 4,324 million yen. Current liabilities increased 3,430 million yen mainly due to an increase in short-term loans payable. Total liabilities and assets amounted to 89,744 million yen (+8,969 million yen y-o-y).

Cash flow (consolidated)

Free cash flow was -2,085 million yen, mainly due to the acquisition of tangible assets, and cash flow from financing activities increased 937 million yen, mainly due to an increase in short-term loans payable, but cash and cash equivalents decreased 1,027 million yen.

Appendix: Details of the financial model

Detailed financial model of actual results, company plan and JPR forecast 10-year forecast

[Millions of yen]	track record	Corporate										
		Plan JPR	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast
	2023.03	2024.03	2025.03	2026.03	2027.03	2028.03	2029.03	2030.03	2031.03	2032.03	2033.03	2034.03
FY	2023.03	2024.03	2025.03	2026.03	2027.03	2028.03	2029.03	2030.03	2031.03	2032.03	2033.03	2034.03
PL												
Net sales	64,311	65,000	66,950	68,959	71,027	73,158	75,353	77,161	78,643	79,851	80,832	81,627
Cost of sales	50,676	50,765	52,288	53,512	54,762	56,039	57,343	58,720	59,847	60,766	61,513	62,118
Selling, general and administrative expenses	8,760	9,230	9,306	9,585	9,873	10,169	10,474	10,725	10,931	11,099	11,236	11,346
EBITDA	6,140	8,274	8,696	9,247	9,823	10,426	11,076	11,333	11,543	11,715	11,854	11,918
Total Depreciation and Amortization	1,266	3,269	3,340	3,386	3,431	3,476	3,540	3,617	3,679	3,730	3,771	3,755
Operating income	4,874	5,005	5,356	5,861	6,392	6,950	7,535	7,716	7,864	7,985	8,083	8,163
Interest expenses	51	19	15	15	15	15	15	15	15	15	15	15
Other non-operating income/loss	357	0	0	0	0	0	0	0	0	0	0	0
Ordinary income	5,180	5,350	5,341	5,846	6,377	6,935	7,520	7,701	7,849	7,970	8,068	8,147
Extraordinary gains/losses	38	0	0	0	0	0	0	0	0	0	0	0
Income taxes	1,507	1,650	1,634	1,789	1,951	2,122	2,301	2,356	2,402	2,439	2,469	2,493
Comprehensive income attributable to owners of the parent	3,711	3,700	3,706	4,057	4,426	4,813	5,219	5,344	5,447	5,531	5,599	5,654
Number of shares issued at beginning of period (thousand shares)	22,860	22,860	22,860	22,860	22,860	22,860	22,860	22,860	22,860	22,860	22,860	22,860
Number of shares issued (thousand shares)	0	0	0	0	0	0	0	0	0	0	0	0
Number of shares issued at end of period (thousand shares)	22,860	22,860	22,860	22,860	22,860	22,860	22,860	22,860	22,860	22,860	22,860	22,860
EPS (yen)	179.9	179.3	179.6	196.6	214.5	233.3	252.9	259.0	264.0	268.1	271.4	274.0
BS												
Short-term liquidity	5,796	5,970	6,149	6,333	6,523	6,719	6,880	7,012	7,120	7,208	7,278	7,278
Working capital	40,186	41,392	41,564	42,422	43,093	43,767	44,817	45,570	46,270	46,838	47,299	0
Short-term marketable securities	999	999	999	999	999	999	999	999	999	999	999	999
Property, plant and equipment subject to amortization	10,141	10,445	10,586	10,726	10,865	11,003	11,267	11,483	11,659	11,803	11,919	11,919
Goodwill	0	0	0	0	0	0	0	0	0	0	0	0
Software	138	142	146	151	155	160	164	167	170	172	173	0
Investment securities	8,669	8,669	8,669	8,669	8,669	8,669	8,669	8,669	8,669	8,669	8,669	8,669
Other assets	8,280	6,026	5,861	5,682	5,487	5,275	5,401	5,505	5,590	5,658	5,714	0
Total assets	89,744	89,999	93,334	96,983	100,962	105,276	110,912	116,573	122,485	128,368	134,292	139,672
Current liabilities other than interest-bearing debt	15,818	14,307	13,981	13,622	13,229	12,800	13,318	13,789	14,439	15,059	15,654	15,654
Short-term debt	1,882	0	0	0	0	0	0	0	0	0	0	0
Long-term debt	1,693	1,693	1,693	1,693	1,693	1,693	1,693	1,693	1,693	1,693	1,693	1,693
Other long-term liabilities	1,692	1,692	1,692	1,692	1,692	1,692	1,692	1,692	1,692	1,692	1,692	1,692
Capital stock, etc.	3,742	3,742	3,742	3,742	3,742	3,742	3,742	3,742	3,742	3,742	3,742	3,742
Retained earnings, etc.	64,916	68,565	72,226	76,235	80,607	85,349	90,467	95,657	100,919	106,182	111,510	116,890
Net Assets and Liabilities	89,743	89,999	93,334	96,983	100,962	105,276	110,912	116,573	122,485	128,368	134,292	139,672
CF												
Short-term liquidity	2,243	▲ 174	▲ 179	▲ 184	▲ 190	▲ 196	▲ 161	▲ 132	▲ 108	▲ 87	▲ 71	0
Working capital	▲ 5,672	▲ 1,206	▲ 172	▲ 858	▲ 671	▲ 673	▲ 1,050	▲ 753	▲ 700	▲ 569	▲ 460	47,299
Current liabilities other than interest-bearing debt	1,759	▲ 1,511	▲ 326	▲ 359	▲ 393	▲ 429	519	471	649	620	595	0
Investment in property, plant and equipment	▲ 2,028	▲ 3,517	▲ 3,423	▲ 3,466	▲ 3,509	▲ 3,550	▲ 3,740	▲ 3,767	▲ 3,788	▲ 3,805	▲ 3,818	▲ 3,720
Depreciation of property, plant and equipment	1,266	3,213	3,282	3,326	3,370	3,413	3,476	3,551	3,612	3,662	3,702	3,720
Investment in software	▲ 126	▲ 60	▲ 62	▲ 64	▲ 66	▲ 68	▲ 69	▲ 69	▲ 70	▲ 70	▲ 71	139
Amortization of software	37	56	58	59	61	63	65	66	67	68	69	35
Investment in goodwill	0	0	0	0	0	0	0	0	0	0	0	0
Amortization of goodwill	0	0	0	0	0	0	0	0	0	0	0	0
Short-term marketable securities	0	0	0	0	0	0	0	0	0	0	0	0
Investment securities	▲ 577	0	0	0	0	0	0	0	0	0	0	0
Other assets	▲ 2,897	2,255	164	179	195	212	▲ 127	▲ 104	▲ 85	▲ 69	▲ 56	5,714
Retained earnings, etc.	4,898	3,649	3,661	4,008	4,372	4,743	5,118	5,189	5,262	5,263	5,328	5,380
Operating CF	▲ 1,097	2,705	3,002	2,642	3,169	3,515	4,030	4,453	4,840	5,013	5,219	58,566
Short-term debt	1,672	▲ 1,882	0	0	0	0	0	0	0	0	0	0
Long-term debt	554	0	0	0	0	0	0	0	0	0	0	0
Other Long-term Liabilities	87	0	0	0	0	0	0	0	0	0	0	0
Equity financing	0	0	0	0	0	0	0	0	0	0	0	0
Financing CF	2,313	▲ 1,882	0	0	0	0	0	0	0	0	0	0
Surplus Cash and Deposits	1,216	823	3,002	2,642	3,169	3,515	4,030	4,453	4,840	5,013	5,219	58,566

Source: JPR

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FY	[Millions of yen]	Corporate											
		track record	Plan	JPR	JPR	JPR	JPR	JPR	JPR	JPR	JPR	JPR	JPR
			JPR	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	2023.03	2024.03	2025.03	2026.03	2027.03	2028.03	2029.03	2030.03	2031.03	2032.03	2033.03	2034.03	
KPI	Ratio of invested capital to sales at the beginning of the period	67.3%	75.0%	74.2%	73.0%	72.8%	72.3%	71.8%	71.6%	71.1%	70.6%	70.0%	70.0%
	Invested capital at the beginning of the period	43,304	48,722	49,667	50,326	51,693	52,895	54,123	55,211	55,948	56,369	56,619	56,729
	Net Sales Growth Ratio	16.6%	1.1%	3.0%	3.0%	3.0%	3.0%	3.0%	2.4%	1.9%	1.5%	1.2%	1.0%
	Cost of Sales Ratio	78.8%	78.1%	78.1%	77.6%	77.1%	76.6%	76.1%	76.1%	76.1%	76.1%	76.1%	76.1%
	SG&A to sales ratio	13.6%	14.2%	13.9%	13.9%	13.9%	13.9%	13.9%	13.9%	13.9%	13.9%	13.9%	13.9%
	NOPAT	3,383	3,473	3,717	4,068	4,436	4,823	5,229	5,355	5,458	5,542	5,610	5,665
	ROIC	7.8%	7.1%	7.5%	8.1%	8.6%	9.1%	9.7%	9.7%	9.8%	9.8%	9.9%	10.0%
	Working capital to daily sales (days)	196	226	220	218	215	212	212	212	212	212	212	212
	Current liabilities other than interest-bearing debt to daily sales (days)	80	80	78	74	70	66	62	63	64	66	68	70
	Liquidity on hand monthly ratio (months)	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
	Short-term debt interest rate	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%
	Long-term debt interest rate	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%
	Effective tax rate	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	31%
	Dividend payout ratio	30.8%	25.0%	25.0%	25.0%	25.0%	30.0%	40.0%	60.0%	70.0%	100.0%	100.0%	100.0%
	Gross DE ratio	5.2%	2.3%	2.2%	2.1%	2.0%	1.9%	1.8%	1.7%	1.6%	1.5%	1.5%	
	Net DE ratio	-25.9%	-28.5%	-31.3%	-33.3%	-35.6%	-37.8%	-40.2%	-42.7%	-45.3%	-47.8%	-50.2%	
	Depreciation of property, plant and equipment	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
	Amortization of goodwill	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
	Software amortization ratio	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%

Source: JPR

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Reference 1. For those new to JPR reports

GCC Management™ Analysis

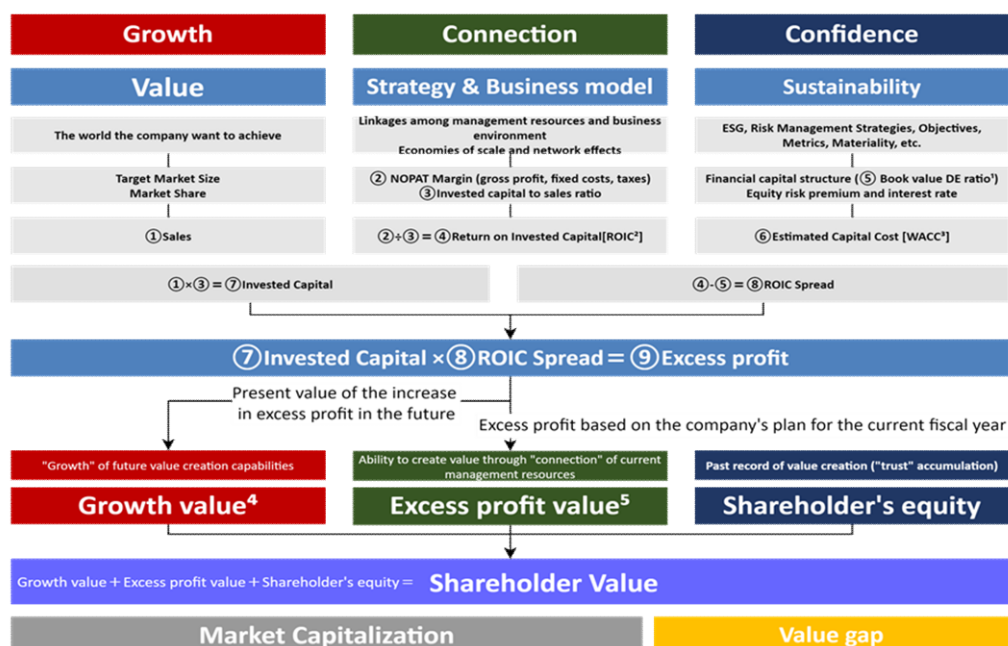
Analyze by the three elements of Growth, Connection, and Confidence.

A framework for directly linking qualitative stories to shareholder value

Visualize the value gap between theoretical shareholder value and market capitalization

This report analyzes corporate value from the perspective of GCC Management™, a framework developed by J-Phoenix Research Corporation ("JPR"), emphasizing three elements: Growth (sales growth), Connection (improved human and business connections = higher return on capital), and Confidence (improved trust = lower business risk). The following chart shows the overall picture of the GCC Management™ framework. The following diagram shows the overall picture. The qualitative future story is linked to financial indicators, which are finally integrated to estimate shareholder value. Using the excess profit method (see "Appendix 3. Basis of Calculation" at the end of this report), JPR estimates the final theoretical shareholder value and visualize the value gap by comparing it with the market capitalization.

GCC Management™ Analysis Framework



[Source: JPR] [Notes] 1. Book value DE ratio: Ratio of interest-bearing debt to shareholders' equity. 2. ROIC: Return on Invested Capital, See "Appendix 3." at the end of this document. 3. WACC: Weighted Cost of Capital, see "Appendix 3." at the end of this document. 4. growth value = cumulative present value of the perpetuity value of the excess profit increment through year X. The perpetuity value is calculated as the excess profit increment divided by WACC. The present value of that amount is discounted by the WACC. Cumulative future value up to year X as assumed by the growth scenario. 5. Excess profit value = the perpetual value of excess profit based on the current year's company plan. The excess profit value is estimated by dividing the excess profit calculated from the current year's company plan and the invested capital at the beginning of the period by the WACC.

Source: JPR

GCC Management ™ Evaluation System

Evaluate the feasibility of the Growth and Connection story of the value creation process from three perspectives

Evaluation of Growth and Connection

Evaluate the feasibility of qualitative stories from three perspectives

JPR evaluates the feasibility of the value creation process based on GCC analysis from three perspectives: conceptual design, implementation design, and actual performance. "Conceptual design" is defined as "conceptualizing the concept of the value creation process" and "implementation design" is defined as "creating and operating a system to systematize and implement the management resources necessary to realize the concept of the value creation process. Value creation becomes an "achievement" only when "conceptual design" becomes "implementation design. JPR conducts subjective evaluations of "conceptual design," "implementation design," and "performance," which are then rated in an easy-to-understand manner at 90%, 70%, 50%, 30%, and 10%. Specifics are described below.

Conceptual Design," "Implementation Design," and "Performance" Evaluation Framework

% indication	90%	70%	50%	30%	10%
"Conceptual design"	Conceptual design is very logically organized	Conceptual design is approximately logically organized	Conceptual design is about halfway organized	Conceptual design is organized to a certain degree	Conceptual design is organized to a certain degree
"Implementation design"	Conceptual design is almost implemented	Conceptual design is almost implemented	Conceptual design is about half implemented	Conceptual design is implemented to a certain degree	Conceptual design has been implemented, albeit marginally.
"Performance"	Targeted outcomes are observed as actual results almost exactly as intended by the conceptual design	Targeted outcomes are observed as actual results almost exactly as intended by the conceptual design	Targeted outcomes are observed as actual results as intended by the conceptual design about half way through	Targeted outcomes are observed as actual results to a certain degree, as intended by the design	Targeted outcomes are observed as achievements, albeit slight, as intended by the conceptual design

Source: JPR

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Evaluation of Confidence

Evaluation of financial stability and social contribution

Credibility of the value creation process

JPR evaluates the feasibility of the value creation process based on GCC analysis from three perspectives: "Conceptual Design", "Implementation Design", and "Actual Performance." "Conceptual Design" is defined as "conceptualizing the concept of the value creation process" and "Implementation Design" is defined as "creating and operating a system to systematize and implement the management resources necessary to realize the concept of the value creation process." Value creation becomes an "Actual Performance" only when "Conceptual Design" becomes "Implementation Design." JPR conducts subjective evaluations of "Conceptual Design," "Implementation Design," and "Actual Performance," which are then rated in an easy-to-understand manner at 90%, 70%, 50%, 30%, and 10%. Specifics are described below.

"Conceptual Design," "Implementation Design," and "Actual performance" Evaluation Framework

% indication	90%	70%	50%	30%	10%
Financial Stability The evaluation is based on a five-point scale from the viewpoint of sufficient experience in the value creation process, differentiated value creation capabilities that are difficult to imitate, low risk of fluctuations such as economic and seasonal fluctuations due to stockholding, and an optimized capital-liability structure.	Very Highly commendable	Highly commendable	Can be evaluated as a listed company on average	Can be commendable to a certain degree	Partially commendable
Social Contribution The social issues addressed are generally of great importance to society, the path to their solution is not yet clear, and they are tackling a challenging task that requires both the creation of a new concept and the systematic creation of the optimal governance structure for its implementation.	Very Highly commendable	Highly commendable	Can be evaluated as a listed company on average	Can be commendable to a certain degree	Partially commendable

Source: JPR

Visualization of value gap through 10-year growth scenario analysis

Comparison of increase in shareholder value and market capitalization by year

Visualize how many years of future stories are reflected in the market capitalization

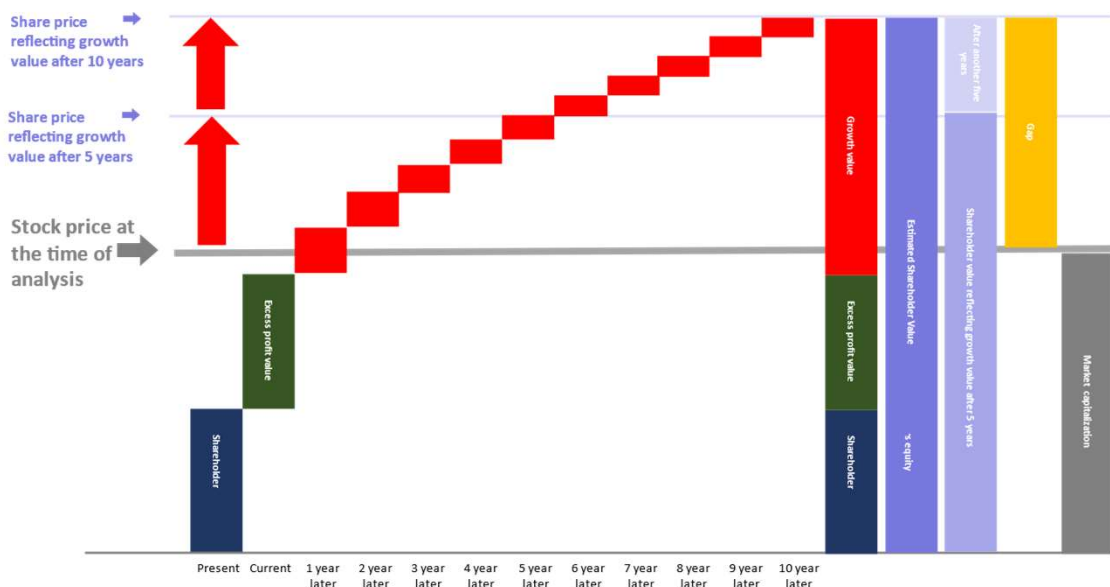
The potential increase in shareholder value generated by a 10-year growth scenario based on the future story is visualized for each year and compared to the market capitalization. This allows us to visualize how many years of the future story are reflected in the market capitalization. 10 years of shareholder value is expected to be reflected in the market capitalization as the expectations for the achievability of the 10-year future story increase. The difference between the market capitalization and the estimated shareholder value reflecting up to 10 years of future story is the estimated upside potential. As investors' expectations of the feasibility of the future story are raised by the specific current performance, the likelihood of the realization of that value gap increases.

Visualization of various scenario analysis

Conservative Growth Scenarios and Scenarios Reflecting Change in Future Stories

This analysis is useful when the firm's strategy undergoes significant change. As shown in the figure below, it is also possible to visualize separately the growth potential under the conservative scenario and the growth potential under the change. Shareholder value without incorporating change represents a conservative amount.

Visualizing the Value Gap



Source: JPR

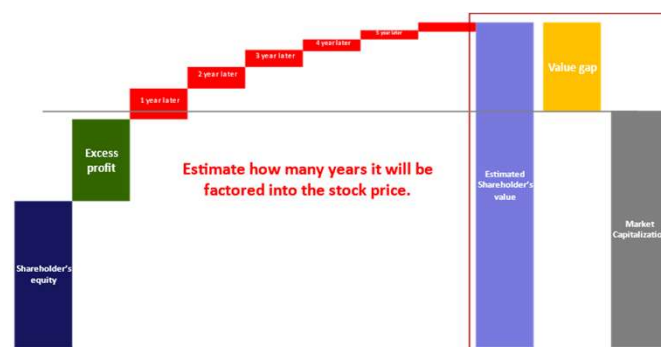
Reference 1. Basis of Calculation

Corporate value estimated by use of ROIC and excess return

Excess return analysis framework

Excess profit or economic value added is globally used as an indicator to estimate corporate value, evidenced by its adoption by Kao Corporation, a Grand Prix winner of the Tokyo Stock Exchange Fifth Corporate Value Improvement Award (FY2016). In the calculation of excess return, corporate value can be broken down into four elements: invested capital, excess return value, growth value, and non-business assets. This facilitates a better understanding of the structure that creates corporate value. A company might be overvalued or undervalued when its market cap is higher or is lower than its theoretical corporate value, respectively. The contribution of each year's corporate value can be visualized in the following figure, wherein shareholders' equity is simply represented as a sum of invested capital and non-business asset, subtracting interest-bearing debts. The figure below allows us to estimate how many years of growth might be incorporated into the stock price.

Breakdown of corporate value using excess return



[source] JPR

Estimated excess return is profit that exceeds investors' return expectations against invested capital. Its present value is "excess return value," while a potentially growing portion of excess return is "growth value." Moreover, assets not used in business are added as non-business asset value in estimating a theoretical corporate value. Theoretically, the estimated corporate value using excess return should be the same as the value estimated using the discount cash flow (DCF) model. This report calculates excess return by using the following figures in a simplified manner.

- ① Excess return = NOPAT – Invested capital X WACC
- ② Net Operating Profit After Tax (NOPAT) = Operating profit X (1 - Effective tax rate)
- ③ Invested capital = Total assets – Non-business assets – Current liabilities excluding interest-bearing debt
- ④ Non-business assets = Cash and deposits exceeding 10% of sales + Short-term investment securities + Investment securities + Deferred gains or losses on hedges + Land revaluation difference + Foreign currency translation adjustments
- ⑤ Weighted average cost of capital (WACC) = After-tax interest rate of interest-bearing debt X (D/(E+D)) + Cost of shareholders' equity X (E/(D+E))
- ⑥ Cost of shareholders' equity = 0.5% + 5% X β
- ⑦ β = Slope of a linear regression line of five-year daily returns of TOPIX and the stock price of the target company
- ⑧ E = Market cap at the time of calculation
- ⑨ D = Short-term interest-bearing debt + Long-term liabilities + Minority interests in the latest financial statements at the time of calculation

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