

CFO Message

Daiseki will make proactive growth investments and appropriately allocate resources to attain VISION 2030 and contribute to improving corporate value in the medium to long term.

Hideki KATASE

Managing Executive Officer,
General Manager,
Headquarters of Planning and Management



Daiseki aims to further expand its business foundation by leveraging strengths that cannot be replicated by other companies.

Daiseki's competitive advantages are derived from its technological capabilities for treating and recycling highly difficult-to-process wastewater at plants, its sales capabilities that enable it to identify clients who will use its recycled products, a client base of over 6,000 large-scale production plants, and its employees' healthy sense of loyalty to the company.

Daiseki engages in businesses centered on waste treatment and recycling with large companies in a broad assortment of industries such as the manufacturing and construction industries. Our business model is unique because it provides us with two opportunities to generate cash, first at the input phase, where we collect and process waste, and second at the output phase, where we sell products recycled from that waste. I believe Daiseki still has significant room to expand its business by undertaking composite transactions with each and every client, widening its transaction item range, and expanding into other businesses. Moreover, we also have some leeway for utilizing our ingenuity to enhance productivity and efficiency such as by having employees play multiple roles.

There are waste disposal companies all across Japan that carry out landfill and incineration processing. When potential clients compare waste disposal costs, there are still numerous instances of clients failing to see the benefits of switching to Daiseki and for this reason we are sometimes unable to enter into contracts. In recent years, however, a growing number of clients, especially environmentally conscious companies, are asking for waste recycling instead of using landfills or incineration. Daiseki appeals to such clients by emphasizing the benefits it can provide as added value. These include Daiseki's unique capabilities in recycling waste material for reuse as resources.

We also emphasize that recycling instead of incinerating waste reduces CO₂ emissions and thus enables higher evaluations by CDP, an international environmental rating organization. In this area, Daiseki has earned an A score in the CDP Climate Change category for two consecutive years. There are only a handful of companies worldwide engaged primarily in industrial waste treatment and recycling that have earned an A score from CDP. This means that Daiseki is internationally recognized as a company that takes a leadership role in the field of carbon neutrality.

I recognize that our ability to utilize this evaluation to support the carbon neutrality of environmentally conscious companies is a unique strength of Daiseki that cannot be replicated by other companies.

An increasing number of companies, mainly those with A, A-, and B scores from CDP, are striving to reduce Scope 3 Category 5 emissions, which correspond to supply chain CO₂ emissions derived from the disposal and treatment of waste. In the fiscal year ended February 2025, Daiseki focused on cultivating new business with the plants operated by these companies and secured new business with 270 plants. Until now, our sales focused only on a person in charge of waste management in plants. Going forward, however, we will broaden our sales targets to include sustainability departments at company head offices, where we will explain the added value provided by Daiseki. We seek to develop new services aimed at realizing carbon neutrality and a circular economy by listening closely to the sophisticated issues and needs of environmentally conscious companies.

Looking back at the fiscal year ended February 2025 and progress towards achieving VISION 2030

In the fiscal year ended February 2025, the Daiseki Group recorded a decrease in both revenue and profits from the previous year, reflecting uncertainties in the external environment arising from such factors as soaring raw materials and energy prices and persistent inflation.

In the Group's core business of industrial waste treatment centering on Daiseki's plant wastewater treatment, we successfully cultivated new business in anticipation of demand from companies that are responding to CDP and also recorded favorable shipments of recycled fuels. As a result, Daiseki achieved record highs in both sales and operating profit.

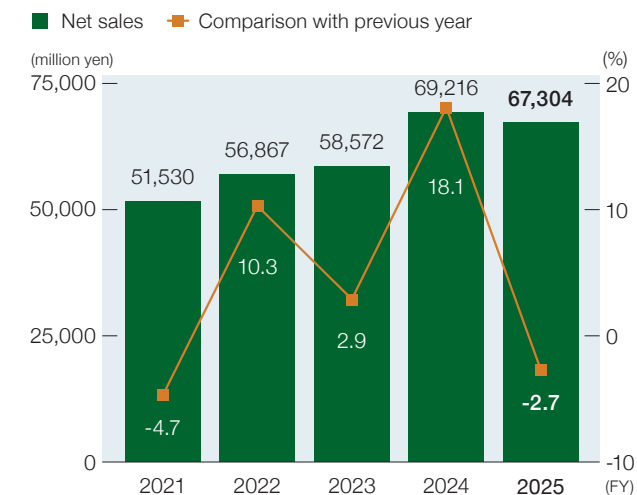
Despite a year-on-year decrease in large-scale soil projects, Daiseki Eco. Solution Co., Ltd.'s contaminated soil remediation business trended firmly, as both sales and operating profit exceeded plans thanks to orders for high-value-added projects. Daiseki MCR Co., Ltd. recorded a decrease in profits from the previous period due to the impact of an approximately two-month shutdown of operations at the Utsunomiya Recycling Center for the 11th year of large-scale repairs. Nevertheless, both sales and operating profit exceeded plans, as prices for lead remained strong throughout the year. System Kikou Co., Ltd. achieved record highs in both sales and ordinary profit due to the early completion of work on highly profitable projects in its main business of large-scale tank cleaning at refineries and crude oil storage bases.

On a consolidated basis, both sales and operating profit exceeded the initial plan. However, operating profit fell slightly short of the revised plan announced on January 6, 2025 due to the impact of costs related to the tender offer for OSAKA YUKA INDUSTRY recorded in the fourth quarter.

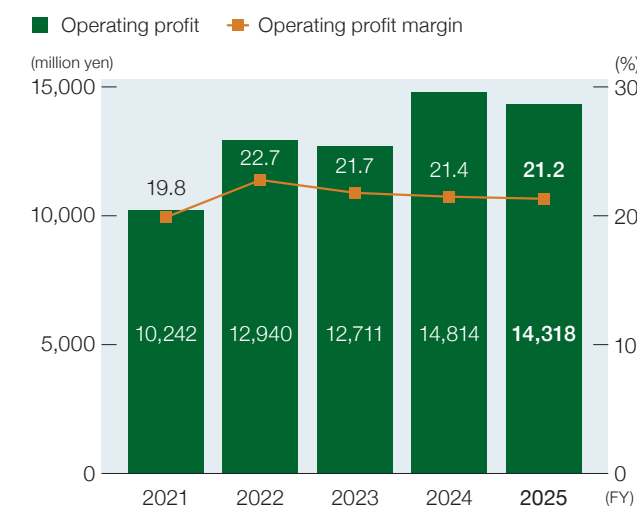
In the fiscal year ended February 2024, as the volatility of consolidated performance increased due to the impact of Daiseki Eco. Solution's contaminated soil remediation business, the β value also increased, which is used when calculating the cost of shareholders' capital. The β value represents the extent to which stock prices, such as for individual stocks and industry indices, are affected by market movements and is a risk indicator that shows how sensitively individual stock returns fluctuate in response to overall market movements. As a countermeasure, Daiseki Eco. Solution began utilizing a system that ranks and aggregates the probability and accuracy of projects handled by all sales representatives up to six months in advance to make approximate sales forecasts on a quarterly basis. Daiseki's sales representatives accompanied prospective clients with expected demand in the contaminated soil remediation business on visits to nearly 1,000 companies, which improved sales accuracy and reduced volatility. As a result, the β value decreased and we lowered the cost of shareholders' capital by 1 percentage point in the fiscal year ended February 2025.

In the fiscal year ending February 2026, Daiseki, Daiseki Eco. Solution, Daiseki MCR, and System Kiko are all expected to record increases in operating profits, while on a consolidated basis net sales and operating profits are expected to reach new record highs. We will utilize our rich client base and synergies both within and outside the Group and will strengthen initiatives for collaboration across the Group such as by providing a one-stop service for treating wastewater and soil.

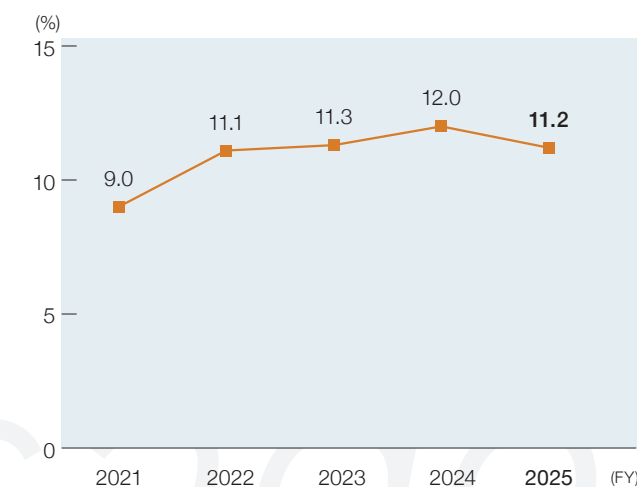
Net sales



Operating profit, Operating profit margin



ROE



Implement proactive growth investments to achieve VISION 2030

Our competitive advantage is our ability to undertake business with environmentally conscious companies by leveraging our strengths such as our high technological and sales capabilities. Looking ahead to the next stage of growth, we will actively invest in the circular economy, which is the most pressing need of environmentally conscious companies, with a particular focus on strengthening initiatives in material recycling fields. In The Policy Package for Accelerating the Transition to a Circular Economy of December 2024, the Japanese government announced a goal of growing the circular economy market to 80 trillion yen by 2030. Although Daiseki has been involved in recycling up to the present, a circular economy requires even more-advanced technological capabilities. Accordingly, to acquire technologies and know-how not possessed by Daiseiki, we will actively invest in technology partnerships and joint development with other companies and universities as well as in M&A and in recruiting people with specialized skills, as we strive to accelerate new business development by building these large-scale alliances that extend beyond the Daiseiki Group.

Although the TOB for OSAKA YUKA INDUSTRY LTD. in February 2025 was ultimately unsuccessful, we attempted this M&A with the hope of creating synergies between OSAKA YUKA INDUSTRY and Daiseiki. In the future, we will utilize OSAKA YUKA INDUSTRY's technologies and will consider businesses that meet the circular economy needs of Daiseiki's clients. In this way, we will ambitiously acquire technologies and know-how not possessed by the Daiseiki Group from outside the company. We will not remain complacent in thermal recycling^{*1}, which currently supports Daiseiki's profitability. Rather, we must hone technologies for separating substances in waste and recycle them as resources while also preparing ourselves to shift to material recycling at any time. Therefore, when selecting M&A, we also focus on choosing companies with strengths not possessed by Daiseiki in accordance with the directions pursued by Daiseiki.

Daiseiki maintains a solid financial base. Nevertheless, I also recognize that holding excessively large amounts of cash is also an issue. In our mid-term management plan announced in April 2024, we set out a policy to reduce net cash by approximately 9 billion yen over three years and to improve fund efficiency. We will concentrate surplus funds of Group companies at our Head Office and allocate these funds for growth investments. Regarding Daiseiki's capital efficiency, our ROE is over 11%, and the equity

spread, which is the difference between that and the cost of shareholders' capital and currently calculated to be around 7.5%, is approximately 3.5%. We plan to increase the equity spread to 5% or higher. Regarding M&A, we will avoid companies with businesses that have low capital efficiency. We will also select candidate companies with which we can expect to create synergies by leveraging our extensive client base and technological capabilities and make concentrated investments in these companies.

For cash allocation, I recognize that the biggest issue we face is to accelerate growth investments while prioritizing the balance between growth investments and shareholder returns. We had targeted growth investments of 26 billion yen over the three-year period from the fiscal year ended February 2025 to the fiscal year ending February 2027. However, in the fiscal year ended February 2025, progress was limited to 4.4 billion yen due to our unsuccessful takeover bid for OSAKA YUKA INDUSTRY. Of the 26 billion yen earmarked for growth investments, we expect half of this, or about 12 billion to 13 billion yen, to be spent on establishing bases for Daiseiki and Daiseiki Eco. Solution, and about 12 billion to 13 billion yen to be spent for strengthening our technological capabilities through M&A with companies possessing strong technological capabilities.

In October 2024, we introduced a restricted stock incentive plan for the shareholding association system. In doing so, we disposed of a total of 75,100 shares of treasury stock with a value of 269 million yen, which equates to 100 shares per employee. The participation rate in the stock ownership plan is 98.8%. As shareholder returns, we plan to buy back 12 billion yen of our own shares over the three years from the fiscal year ended February 2025 to the fiscal year ending February 2027, with a dividend payout ratio of 40%. In the fiscal year ended February 2025, we paid out dividends of approximately 3.3 billion yen (dividend payout ratio: 37.2%) and bought back treasury shares for approximately 2.7 billion yen, with a progress rate of 22%. (We bought back treasury shares for approximately 5.6 billion yen of our own shares by May 2025, with a progress rate of 47%.) Under VISION 2030, we have set the targets of achieving consolidated net sales of 150 billion yen, consolidated operating profit of 25 billion yen, and ROE of 15.0% for the fiscal year ending February 2031. In the fiscal year ended February 2025, consolidated net sales amounted to 67.3 billion yen, consolidated operating profit was 14.3 billion yen, and

ROE was 11.2%. Under the mid-term management plan, for the fiscal year ending February 2028 we aim for consolidated net sales of 81 billion yen, consolidated operating profit of 18 billion yen, and ROE of 12.2%. If we can continually achieve growth at this pace by pursuing improvements in profitability and total asset turnover, I expect the Group will record sales of 100 billion yen and operating profit of 22.6 billion yen by the fiscal year ending February 2031. When adding operating profit of 5 billion yen generated from new

businesses, we plan to achieve our operating profit target of 25 billion yen set in VISION 2030.

› P.40 Outlook for Future Business Strategy

^{*1} Thermal recycling (thermal recovery): Recycling that reduces the use of fossil fuels and the environmental impact by recovering the thermal energy generated when waste is burned.

Achieving sustainable growth through the proper allocation of people, materials, and money

The role of Daiseiki's CFO spans a wide range, covering not only accounting and finance but also business strategy, M&A, financial strategy, human capital development, digital transformation, corporate governance, investor relations and sustainability. For example, when I proposed to the Sales Department that they select target clients, I hypothesized that companies with CDP scores of A, A- and B would find value in utilizing our competitive advantages with a high probability that they would become major clients.

Looking ahead, we will be unable to grow our businesses just by taking a passive stance and doing as we are told by clients. Alternatively, Daiseiki must become a flag-bearer for the circular economy by seizing the initiative and standing at the forefront of the industry, anticipating and delving deeper into issues faced by clients, and leading the way to finding solutions. We will gather people with the skills needed for our future business model, and actively pursue alliances with companies, local governments, and universities outside the Group.

Daiseiki is also working toward new business development. For example, through a business partnership, Daiseiki is undertaking joint research with SyncMOF Inc., a Nagoya University venture. Daiseiki and SyncMOF are jointly developing technologies for efficiently capturing ammonia in exhaust gases, which we found difficult to process with conventional equipment, by using a new adsorption/desorption agent with excellent ability to selectively capture only ammonia. By combining Daiseiki's client base of over 6,000 production plants with SyncMOF's technological capabilities, we are able to expand our business scale in a win-win manner.

Strengthening human capital, an important asset for Daiseiki, is also an urgent issue. There are many instances at Daiseiki of two generations of a single family working at the company and I regard our low turnover rate to also be a strength. This situation is not the result of nepotism or low mobility of human capital. Rather, I believe this indicates that there are numerous employees who empathize with Daiseiki's social mission of being a business that contributes to environmental conservation as well as its spirit of not wasting and who work in a job that they can be proud of in front of their families. To further strengthen our human capital, we will review our compensation and evaluation systems and expand our stock compensation system to the entire Group and increase the diversity of our human capital as well as employee engagement. Additionally, in working to achieve further business growth and to realize a circular economy, Daiseiki must focus on hiring technical staff with a passion for developing new things, people for promoting the digital transformation, and people with the skills to anticipate and propose solutions to the issues faced by clients. Regarding our business portfolio, we plan to increase the weighting of the circular economy while promoting efficiency. We will also pay attention to how we allocate our capital consisting of people, materials, and money, and will proceed with our selection and concentration.

Furthermore, in light of Japan's declining population and

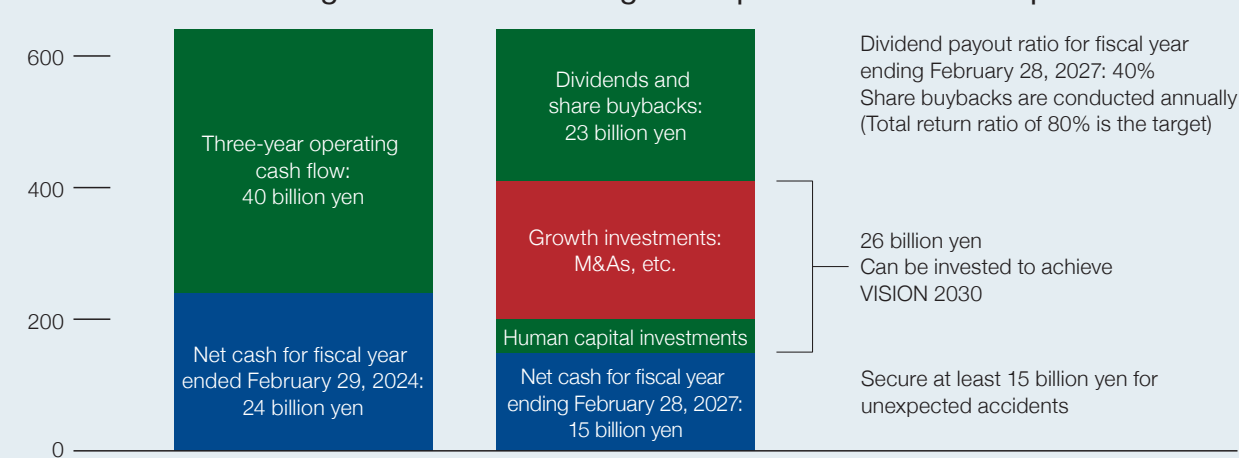
economic situation, we are considering medium-to-long-term measures that anticipate the future. We are currently gathering information in preparation for overseas expansion. We aim to develop and hire people with foresight to ensure our human capital is sufficient for future overseas expansion.

Daiseiki's opportunities for dialogue with investors both in Japan and overseas have increased with each passing year. We aim to continue being a CSV company^{*2}, which makes large contributions to the environment and increases economic value and social value. Daiseiki regards environmental responses not as a cost but rather as an opportunity for growth as a company. Recent years have witnessed demand for higher levels of environmental responses and this is providing a tailwind for Daiseiki. We will hold in-depth discussions with investors about the source of our competitive advantages and how Daiseiki will play a central role in the circular economy of tomorrow.

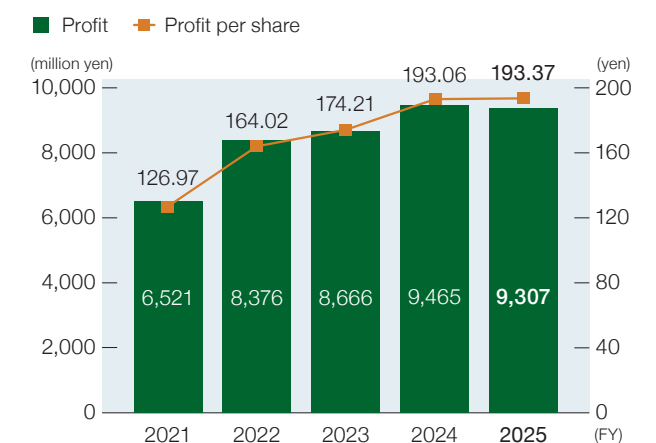
I will continue to oversee a wide range of areas, including financial matters, and strive to create comfortable working environments for our frontline employees as I make my utmost efforts to support Daiseiki's growth. I sincerely ask for the understanding and support of all our stakeholders.

^{*2} CSV stands for Creating Shared Value. This is a concept proposed by Professor Michael E. Porter of Harvard University that combines social contribution and business, and aims to increase corporate profits through business that contributes to society.

Cash allocation during the mid-term management plan announced in April 2024



Profit attributable to owners of parent



^{*1} Profit per share was calculated with reference to the 1.2-for-1 stock split of common stock carried out in September 2021 and assumes a stock split at the beginning of FY2021 in line with this.