

SRG Takamiya Co., Ltd. (Tokyo Stock Exchange Second Section)

Summary

- ✓ The main business of SRG Takamiya Co., Ltd. (hereinafter, or the company) is rental of light temporary scaffold equipment and materials for construction works. In the past several years, however, the company is diversifying its business focusing on manufacturing and sales of those materials.
- ✓ Due to the weak demand for the domestic construction sector, the company's business results up to the fiscal year 09 (FY09, ending in March, 2010), were slowing down, but after the FY11, its results have recovered into up-trend due mainly to growth of the sales sector on which the company was heavily focusing, and to contributions of consolidated subsidiaries taken over in the past. In the FY13 ending in March, 2014, operating profits have achieved ¥3.05 billion partly thanks to Abenomics, updating the historical high profits.
- ✓ Sales of ¥36 billion (up by 11.1% year-on-year) and operating profits of ¥3.84 billion (up by 25.9% year-on-year) are projected in the ongoing FY14 ending in March, 2015. These goals are likely to be achieved because overall industry environment has completely changed to better and the sales business has increased its profits.
- ✓ The company has announced the midterm management plan targeting sales of ¥45 billion and operating profits of ¥5.2 billion by the FY16 ending in March, 2017. These goals of the midterm management plan are highly likely to be achieved by implementing the measures of "investment in high-value added assets" and "expansion of manufacturing and sales business" with a favorable wind in improvement of overall industry environment.
- ✓ As stated above, the company's results are likely to improve dramatically hereafter. In addition to that, with improved attitudes toward IR, the stock price evaluation will change significantly. It is worth noting how the company and the stock price will change alongside business results in the coming 2 to 3 years.

(Noboru Terashima, analyst of G-Cube Co., Ltd.)

-Consolidated Business Results-

Fiscal term	Net sales (Million yen)	Operating income (Million yen)	Ordinary income (Million yen)	Net income (Million yen)	Dividend (Yen)
Mar., 2011 (A)	17,490	722	621	302	20.0
Mar., 2012 (A)	23,201	1,037	1,080	755	20.0
Mar., 2013 (A)	28,113	1,605	1,553	807	20.0
Mar., 2014 (A)	32,443	3,051	3,006	1,768	13.0
Mar., 2015 (E)	36,030	3,840	3,700	2,227	20.0

* "E"=expected by the company.

Dividends paid in March 2014 are the dividend after stock split (1:2 as of April 1, 2013).

SRG Takamiya Co., Ltd. (Tokyo Stock Exchange Second Section)**<History>**

The company was founded in 1969 as Sinkansai Co., Ltd., in Higashiyodogawa-ku, Osaka City, Osaka Prefecture. The company dealt mainly with wooden scaffolding. In the meantime, the company focused quickly on steel scaffolding being spotlighted at that time especially overseas, and introduced those to building and civil engineering sites. Around that time, many builders procured large quantities of equipment and materials to construct pavilions for the Osaka World Exposition. Such trend to sell used equipment and materials was soon seen in Osaka. Because of this trend, the company focused attention on future possibility of rental business of such equipment and material, and thus bought a large amount of temporary equipment and materials to change the core of business from sales to rental, and thus laid the foundations of the current SRG Takamiya. Then, in the 1980's, the company aggressively introduced state-of-the-art technology ahead of other companies. The company newly established an engineering department to respond to drawing and design needs, and constructed a computer center for further energy-saving and rationalization. The company promoted a corporate structure from both technological and managerial aspects. In 1988, the company introduced a CAD system in the engineering department. Thereafter, this engineering department was spun off as the predecessor of Cadian (temporary drawing design).

The latter half of 1980's were the time when Japan's economy as a whole thrived inside an economic bubble. Investment in the domestic construction industry expanded to ¥85 trillion (real value: National Land and Transportation Ministry) and the temporary equipment and materials rental market expanded as well. Under these circumstances, the whole industry lowered rental price resolutely without thinking of the consequences and fierce price competition beset the participating companies. During such period, however, the company did not simply compete by cutting prices but stood by its belief that improving the quality of services itself would gain the trust of customer and thus continued with those efforts.

In the 1990's, the economic bubble collapsed and investment in the construction industry in Japan fell to ¥53 trillion (same as above). The leading general contractors sold large quantity of their temporary equipment and materials to improve their financial position. While many competitors refrained from new investment in equipment and materials, the company aggressively purchased temporary equipment and materials dumped in the market and, as a result, it now possessed a large quantity of fully-depreciated equipment and materials. In the temporary equipment and materials rental industry, since the quantity of equipment and materials is directly co-related to sales increase, the fact that the company could acquire a large quantity of equipment and materials marked an important turning point for next period of growth for the company.

All the leading general contractors who sold temporary equipment and materials after the bubble burst changed their business model to outsourcing temporary construction work and, as a result, the rental share of the temporary equipment and materials market increased abruptly to 90% of the total. On the other hand, while the construction industry recovered favorably, the price of steel materials rose alongside soaring crude oil prices and a shortage of

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temporary equipment and materials prevailed in the market. In such environment, the company has established overwhelming advantageous position owing to aggressive purchasing of equipment and materials that the company did in the 1990's.

The company, thereafter, went on growing favorably as a rental company specialized in temporary equipment and materials, made efforts to improve its position in the rental industry as a company that always creates new value and aims to serve not only the construction industry but also society at large. In 2005, the company's shares were listed on the JASDAQ Securities Exchange, and then in December 2007, they were listed in the Second Section of the Tokyo Stock Exchange.

Recently (after 2010), in light of frequent landslide disasters, the demand for landslide prevention work, which the company has been tackling ahead of other competitors, has increased rapidly. Also, the company has developed the "space rental" business for solution of facilities for acceptance of contaminated soils and wastes and sports event facilities. Furthermore, the company has adopted mast climbing work platforms (the Lift Climber series) appropriate for skyscrapers as the ultra-tall condominiums that were constructed in 1990's are now in need of repair. Thus, the company offers mast climbing work platforms (the Lift Climber series) appropriate for ultra-high-rise buildings and aggressively develops new markets of great potential. As the result of investment in safety of site workers and surrounding environment, the company has succeeded in maintaining the performance and quality of equipment and materials at a high level. In recent years, construction site safety awareness, i.e., prevention of collapses, accidents caused by falling objects, etc., has risen, and the Ministry of Health, Labor and Welfare, legal JIS establishment and others have made legal revisions to health and safety regulations. Though further improvements to safety, maintenance and quality control are demanded, temporary equipment and materials rental companies are facing difficulties in coping with the situation via just the conventional handling of equipment and materials. However, the company, which has been making efforts to promptly improve site environments, product development and quality maintenance and controls, has been helping to build safe and highly efficient work sites, and has seized upon this movement as a favorable trend.

In addition, the company has completely affiliated Hory Corp., which developed, manufactured and sold temporary construction equipment and materials and home building materials, as a subsidiary in 2010. With this, the company has successfully turned into a company that possesses manufacturing and sales sectors from merely a rental company specializing in temporary equipment and materials. In addition to the active situation across the entire construction market, the anticipatory investment for which the company has been making effort is about to flourish. It will be necessary to watch their future business results.

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<History>

- 1969: Founded Sinkansai Co., Ltd., the predecessor of the company.
- 1973: Moved the registered head office to Settsu City, Osaka Prefecture.
- 1974: Changed the line of business to the “leasing and rental of temporary equipment and materials.”
- 1978: Established a computation center and started doing rental estimates on computer.
- 1984: Established SRG Takamiya Co., Ltd. as a subsidiary of temporary equipment and materials in Chuo-ku, Tokyo.
- 1987: Absorbed the subsidiary into SRG Takamiya Co., Ltd. and, at the same time, renamed the company SRG Takamiya Co., Ltd. Made the former SRG Takamiya Co., Ltd. the Tokyo Branch.
- 1988: Moved the head office to Shibata-cho, Kita-ku, Osaka.
- 1990: Established IWATA Co.,Ltd. to rent temporary equipment and materials for construction in Wakayama City, Wakayama Prefecture (currently consolidated subsidiary IWATA Co., Ltd. in Kinokawa City, Wakayama Prefecture.)
- 1994: In July, established Rental NAGAKITA Co., Ltd. to rent temporary construction equipment and materials in Niigata City, Niigata Prefecture. (currently consolidated subsidiary SHINKEN NAGAKITA Co., Ltd.)
In August, established TATSUMI Ltd. to rent temporary construction equipment and materials in Uchihara-cho, Higashiibaragi-gun, Ibaragi Prefecture (currently consolidated subsidiary TATSUMI Co., Ltd. in Mito City, Ibaragi Prefecture.)
- 1998: Established Techno Kobo Ltd. for temporary drawing design in Chuo-ku, Osaka (currently consolidated subsidiary Cadian Co., Ltd. in Kita-ku, Osaka.)
- 2002: In February, introduced the “Standing Bear” heavy object timbering that were developed in collaboration with Koyo Machine Industries Co., Ltd.
In August, established SRG Kanki Co., Ltd. to rent temporary construction equipment and materials in Suma-ku, Kobe City under joint management with Kanki Co., Ltd.
In December, moved the registered head office to Shibata-cho, Osaka.
- 2003: Introduced “Freely” free design and multipurpose roofing materials.
- 2004: Established HIRAMATSU Co., Ltd. (currently consolidated subsidiary) to rent temporary construction equipment and materials in Haibara -cho, Haibara-gun, Shizuoka Prefecture.
- 2005: In February, established SN Builtech Co., Ltd. (currently consolidated subsidiary) to rent temporary civil engineering equipment and materials in Shinjuku-ku, Tokyo.
In June, the company was listed on the JASDAQ Securities Exchange. (Securities code: 2445)
- 2006: Moved the head office and Osaka Branch to Chayamachi, Kita-ku, Osaka and changed head office registration.
- 2007: In December, the company was listed on the Tokyo Stock Exchange Second Section
(In January 2008, the company was delisted from the JASDAQ Securities Exchange.)

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- 2008: In October, established AOMORI ATOM (consolidated subsidiary) to rent temporary construction equipment and materials in Higashitoori-mura, Shimokita-gun, Aomori Prefecture.
In December, introduced mast climbing work platforms (the Lift Climber series).
- 2009: Acquired 100% stock in Ishijima Kizai Seisakusho Co., Ltd. (Nagoya City, Aichi Prefecture) and made it a consolidated subsidiary.
- 2010: Affiliated Hory corporation. (Koto-ku, Tokyo), which developed, manufactured and sold temporary construction equipment and materials and home building materials, as a consolidated subsidiary.
- 2011: In April, NAGAKITA Co., Ltd. took over the business of Sinkenkizai Co., Ltd. and renamed of company SHINKEN NAGAKITA Co., Ltd. (currently consolidated subsidiary).
In September, affiliated MGI Co., Ltd. (Chuo-ku, Sapporo City), contractor of installation works for temporary equipment, mast climbing work platforms, etc. and temporary electric work.
- 2012: Renamed Ishijima Kizai Seisakusho Co., Ltd. as TOTAL TOSHISEIBI Co., Ltd. (currently consolidated subsidiary in Nakagawa-ku, Nagoya City).
Established the Fukushima Office in Sukagawa City, Fukushima Prefecture.
- 2013: Introduced the next generation scaffolding "Iq System."
- 2014: Acquired 100% stock in ASAHI KOUGYOU Co., Ltd. (Hirano-ku, Osaka City) and made it a consolidated subsidiary.

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Outline of Business

In nutshell, the main line of business of the company is the “rental of temporary equipment and materials.” The company is ranked top in the rental of temporary equipment and materials, being only one as the listed company. In recent years, however, the company has strengthened its position as a manufacturer of construction equipment and materials, solar battery frames, etc., through Hory corporation., acquired by M&A.. (See below for details)

<Temporary equipment and materials and activity areas of the company>

For people working at construction sites and the like, temporary equipment and materials such as scaffolding, in addition to construction machinery (heavy machines such as cranes and bulldozers) are absolutely indispensable. Temporary equipment and materials are classified further into the three categories of “heavyweight temporary equipment and materials”, “lightweight temporary equipment and materials” and “home temporary equipment and materials.” The company specializes in the rental of lightweight temporary equipment and materials.



(Source : Data from company's explanation)

Work sites are roughly classified into the following 9 areas.

(Architecture):

High-rise buildings, high-rise condominiums, warehouses, commercial facilities, etc.

(Bridge):

Expressways, railroads, elevated highways, bridges, etc.

(Underground work):

Shielding work such as subways, pipe lines, and utility tunnels

(Plant):

Construction and maintenance of treatment plants, incineration facilities, plants, etc.

(Repair work):

Repair works including repair, maintenance, etc. of buildings, bridges, and ultra-high-rise buildings

(Demolition work):

Demolition works of structures accompanied by reconstruction, repair, etc.

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(Disaster prevention work of slopes):

Disaster prevention works of slopes, disaster prevention works against landslides, etc.

(Soil improvement work):

Works for improving contaminated soil, etc.

(Work of port and harbor):

Works of coastal seawalls, etc.

There are the following kinds of temporary equipment and materials.

(Building frame)

Scaffolding for work that is used for construction work (of buildings, condominiums, etc.). They are wide versatile and often seen. The next generation scaffolding "Iq System" released in 2013, in particular, is drawing attention from various fields because it provides excellent safety performance and space-saving storage. (See below for details)

(Falsework)

Solid temporary equipment and materials that support heavy structures until works are completed at construction sites of bridges, expressways, etc. and civil engineering works.

(Work gantry)

It can be installed efficiently along irregular slopes to prevent landslides, etc. Large construction machinery and tractor can be operated on it.

(Temporary equipment and materials for the shield tunneling method)

Special temporary equipment and materials for various shield tunneling methods used for stormwater drainage ditches, utility tunnels, etc.

(Mast climbing work platforms)

New generation scaffolding, which electrically moves a working floor up and down, is built for safety and efficiency, and surpasses conventional scaffolding in any application such as condominium repair work, construction works of warehouses, plants, etc.

(Membrane structure dome)

Space rental service that is utilized for soil improvement work, indoor facilities (sports facilities, event sites, etc.) and as disaster prevention shelters.

The company has been positively engaged in the manufacturing and sales businesses for various temporary equipment and materials since it has acquired Hory as mentioned before. The following are products the company deals with in the sales-related business.

Joint (clamp):

General-purpose equipment used in any work sites

Wedge-type scaffolding:

Scaffolding for independent housing, low- and middle-rise condominiums, and repairing

Next generation scaffolding:

New scaffolding with high safety performance, an alternative to the conventional building frames

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Safety member:

Preceding handrails, baseboards, handrail members, etc.

Temporary equipment and materials (Commercial department):

Procurement and sales of new and used equipment and materials

Seismic motion mitigation equipment for wooden housing:

Original product of Hory (supporting new and existing housing)

Metal parts for wooden housing:

Various metal parts and construction materials, etc.

Solar panel installation frame (for housing):

Frames and brackets for installation on house roofs

Installation frame for industrial mega photovoltaic power plant:

Mega solar mounting frames

<Group Companies and Operational Chart>

The SRG Takamiya Group consists of 13 companies between the parent company and the following 12 consolidated subsidiaries. The main lines of business of each subsidiary are as follows.

(Hory Corporation. and Hory Korea)

Manufacture, sales and rental of temporary construction equipment and materials

Manufacture and sales of home building materials (seismic motion mitigation equipment, metal parts, solar panel installation frames, etc.)

(IWATA Co., Ltd.)

Rental of temporary construction equipment and materials

(SHINKEN NAGAKITA Co., Ltd.)

Rental of temporary construction equipment and materials

(TATSUMI Co., Ltd.)

Rental of temporary construction equipment and materials

(HIRAMATSU Co., Ltd.)

Rental of temporary construction equipment and materials

(AOMORI ATOM Co., Ltd.)

Rental of temporary construction equipment and materials

(SN Builtech Co., Ltd.)

Rental of temporary construction equipment and materials

(TOTAL TOSHISEIBI Co., Ltd.)(Former Ishijima Seisakusho Co., Ltd.)

Rental of temporary construction equipment and materials (relating to shielding)

(MGI Co., Ltd.)

Installation work of temporary equipment and materials such as mobile lift-type scaffolding, etc. and contracting for temporary electric work.

(Cadian Co., Ltd.)

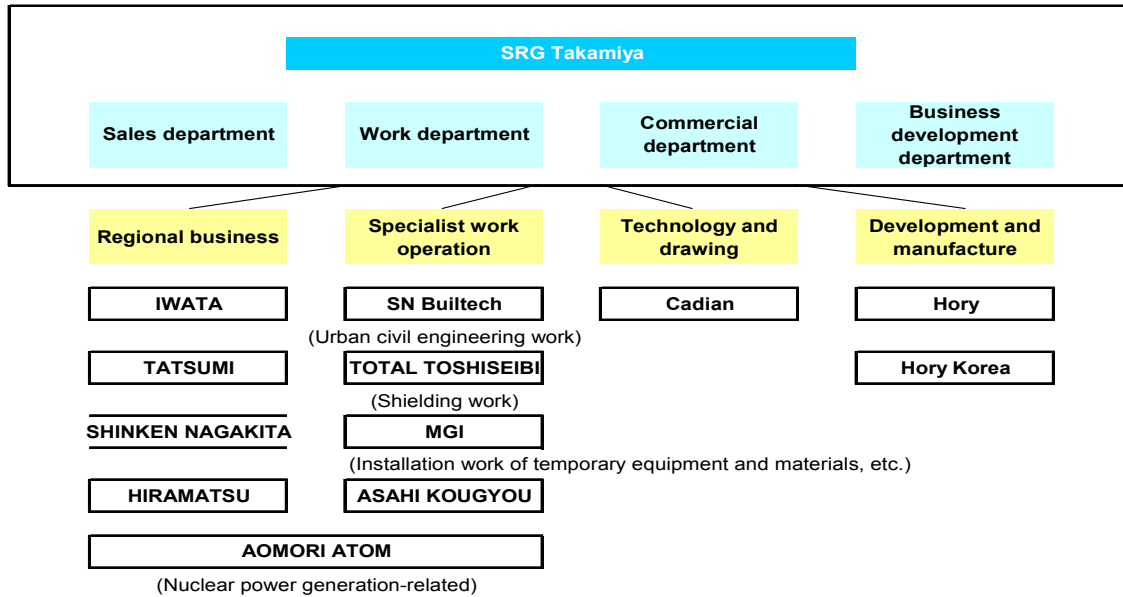
Construction CAD drafting on consignment and CAD drafting of work planning drawings and temporary planning drawings.

(ASAHI KOUGYOU Co., Ltd.)

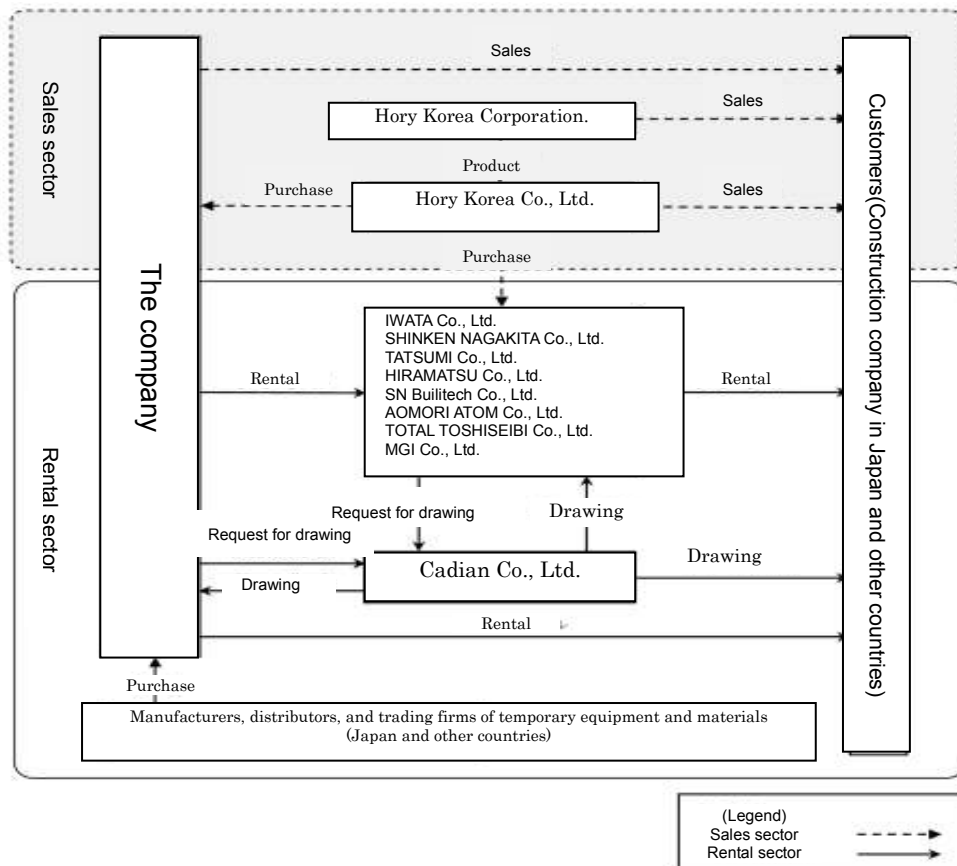
Specializing in sales and rental of concrete molds centering around stainless molds, Asahi Kogyo has many successful records for construction in offshore engineering and, port and harbor fields.

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The following chart shows the businesses and categories of the subsidiaries.



(Source: Created by G-Cube based on various documents)



(Source: Data from the summary of financial statements)

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<“Iq System”>

As mentioned before, the company has released the innovative next generation scaffolding “Iq System” in 2013. This next generation scaffolding has the following advantages and is expected to greatly contribute not only to enhancement of competitiveness of the company’s rental sector but also to increase in sales of the sales sector. At this time, the next generation scaffolding can be manufactured only by Hory (subsidiary) and one more company.

(Speedy assembly and dismantlement)

Adopting the “Side-slide attachment method” in which a wedge is inserted into the flange sideways, it is no longer necessary to pull the joint parts simultaneously. With this feature, it is possible to assemble and dismantle scaffolding quickly.

(Spacious workspace and high safety performance)

A preceding handrail, which is standard equipment, has a height of 1,000 mm or more that exceeds the Ordinance on Industrial Safety and Health. In addition, with a 1,900-mm floor height, workers can go through the scaffolding, wearing a helmet without having to bend down. With these features, spacious work space and high safety performance are realized.

(Working easily with lightweight shores)

Using lightweight, high-strength low-alloy steel pipes, a shore is 2 kg lighter than the conventional wedge-type shores (a 3,800-mm shore), making works significantly easier.

(Significantly increased efficiencies for load and transportation, and storage)

Members can be divided, which significantly decreases the volumes. While the conventional prefabricated scaffolding (equivalent to 1,000 sets) requires 52.62 m² for storage, the Iq System requires only 21.06 m². This significantly improves the stock yard efficiency. The transportation efficiency is also significantly improved because only two trucks are required for transportation that conventionally required three trucks.

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Business Results
<Situation of preceding period>

Million yen, %	Period of March, 2013		Period of March, 2014		
	Actual result	Composition ratio	Actual result	Composition ratio	Year-to-year comparison
Net sales	28,113	100.0	32,443	100.0	15.4
Gross profits	8,196	29.2	9,832	30.3	20.0
SGA expenses	6,590	23.4	6,781	20.9	2.9
Operating income	1,605	5.7	3,051	9.4	90.1
Ordinary income	1,553	5.5	3,006	9.3	93.5
Net income	807	2.9	1,768	5.5	119.1
Net income per share (yen)	37.66	-	80.33	-	-
Dividend per share (yen)	10.00	-	13.00	-	-
Allowance for depreciation	3,280	-	3,369	-	2.7
EBITDA	4,886	-	6,421	-	31.4

Allowance for depreciation is based on the cash flow statement

EBITDA = Operating profits + Allowance for depreciated assets

Net profits per share and dividend per share reflect (are revised by) the stock split (1:2 as of April 1, 2013)

Business results in the previous period (ended in March, 2014) posted a substantial increase in income and profit as shown in the table above. The main factors of such increase are greatly attributable to contribution of the consolidated subsidiaries, which the company has been purchasing for the past several years, in addition to the recovery of the leading rental business, while the increase in earnings in the "sales-related sector" mainly owing to Hory has contributed to overall increase in earnings.

Sales and operating profits of segmentation were as below.

Million yen, %	Period of March, 2013		Period of March, 2014		
	Actual result	Composition ratio	Actual result	Composition ratio	Year-to-year comparison
Sales	28,113	100.0	32,443	100.0	15.4
Sales-related business	12,427	44.2	15,383	47.4	23.8
Rental-related business	15,685	55.8	17,059	52.6	8.8
Operating profits	1,605	5.7	3,051	9.4	90.1
Sales-related business	1,576	5.6	2,045	6.3	29.8
Rental-related business	997	3.5	2,019	6.2	102.5
(Elimination of intra-company transaction)	△ 969	△ 3.4	△ 1,012	△ 3.1	4.4

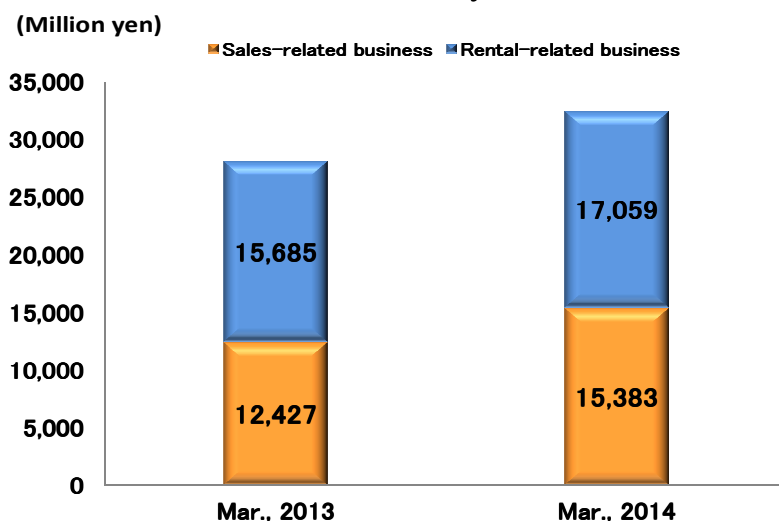
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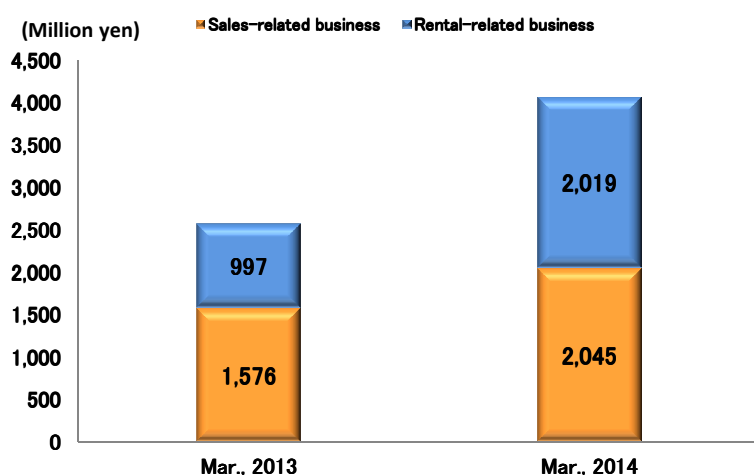
(Trends by sector: The sales-related sector has grown.)

The company had classified business into the 2 sectors; “Sales-related business” and “Rental-related business” from the conventional 4 sectors; “Construction-related sales,” “Construction-related rental,” “Environment-related sales,” and “Environment-related rental.” Sales by sector were ¥15,383 million (up by 23.8% year-on-year) for the sales-related business and ¥17,059 million (up by 8.8% year-on-year) for the rental-related business as shown in the table above. The increase is mainly attributable to the great contribution of the sales-related business. Operating income (before eliminating intra-company transactions) by segment were ¥2,045 million (up by 29.8% year-on-year) for the sales-related business and ¥2,019 million (up by 102.5% year-on-year) for the rental-related business. Both sectors have posted an increase in the profits but the leading rental-related business, in particular, has greatly contributed to the overall profits.

Sales amount by sector



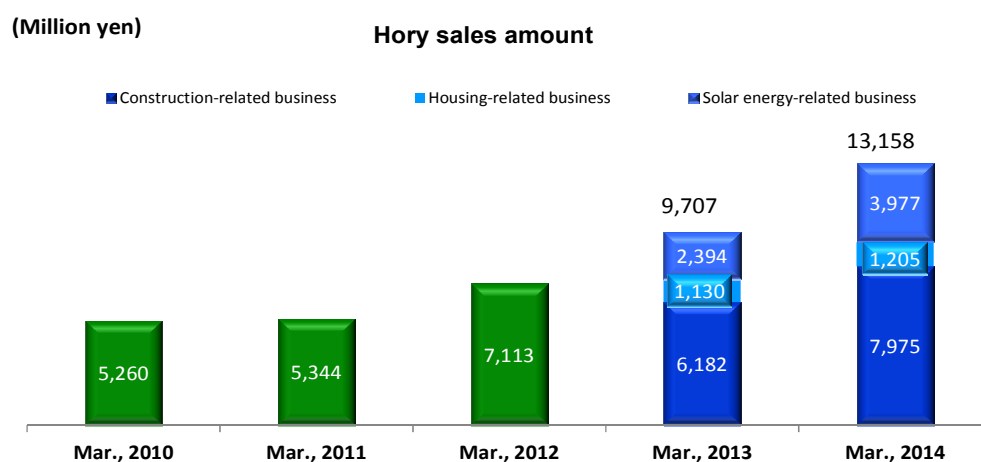
Operating income by sector



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In the sales-related business, the sales of the leading products such as clamps and wedge-type scaffolding were favorable due to the booming construction, civil engineering, and housing industries. In addition, the favorable sales of the business related to solar-energy generation equipment, which has a relatively high profit rate, have also contributed to the increase in income and profit.

Hory (including Hory Korea), a leading company in the sector, has greatly contributed to the increase in income and profit of this sector. The sales of Hory have greatly increased since the FY 09 (ending in March, 2010) as shown in the figure below. Although the improved industry environment boosted the business results of Hory, it seems that the biggest factor for growth was the synergy that began to effect along with a successful interaction between manufacturing and sales after Hory joined the SRG Takamiya Group. It can be said that acquiring Hory was the most effective M&A for the company in the past few years.



Although delay was seen in some civil engineering-related works, profits increase has been achieved in the rental business thanks to favorable sales of maintenance and repair works in addition to improved markets such as construction and housing markets. In addition, unit prices for rental were improved thanks to strong demand (up by approx. 7% compared to previous fiscal period), and the gross profit margin was also improved partly due to cost reduction efforts. On the other hand, the sales and general administration expense reduced. For these reasons, operating income have substantially increased.

SRG Takamiya Co., Ltd. (Tokyo Stock Exchange Second Section)
(Financial conditions and cash flow)

(Million yen)	End of March, 2013	Period of March, 2014
Current assets	13,725	15,892
Fixed assets	20,262	21,353
Tangible fixed assets	17,707	17,213
Assets for rental	11,319	10,760
Intangible fixed assets	782	730
Investments and others	1,772	3,408
Total assets	33,987	34,137
Current liabilities	14,117	15,356
Fixed liabilities	12,760	12,130
Total liabilities	26,877	27,486
Shareholders equity	7,110	9,758

The financial position (balance sheet) in the year ended in March 2014 was as shown above, but there was no particularly substantial change in any of the items from the previous year.

Cash flow (CF) was shown in the table below. Although there were expenses for investments in affiliates (such as minority investments in local companies engaged in photovoltaic power generation) and loans (mainly to these photovoltaic power generating companies), the fund balance at the end of period increased by approximately ¥900 million over the previous fiscal year due to the posted pretax profits.

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(Million yen)	Period of March, 2012	Period of March, 2013
Operating Cash flow	1,575	2,839
Pretax profits	1,489	3,003
Allowance for depreciation	3,280	3,369
Acquisition of assets for rental	△ 2,049	△ 1,487
Increase and decrease of receivable	△ 1,166	△ 117
Increase and decrease of inventory	△ 899	△ 1,974
Investment cash flow	△ 812	△ 1,239
Acquisition of tangible fixed assets	△ 702	△ 431
Investment in affiliates	△ 38	△ 343
Loan (net)	△ 24	△ 558
Financial cash flow	△ 779	△ 715
Increase and decrease of short-term debt (net)	△ 21	759
Increase and decrease of long-term debt (net)	218	△ 975
Increase and decrease of cash or the equivalent	△ 23	902
Outstanding amount of cash or the equivalent at the end of period	3,076	3,979

<Projections for the year ending in March, 2015>

(Million yen, %)	Business results in Period of March, 2014		Expectation of Period of March, 2015		
	Amount	Composition ratio	Amount	Composition ratio	Y/Y comparison
Sales	32,443	100.0	36,030	100.0	11.1
Operating income	3,051	9.4	3,840	10.7	25.9
Ordinary income	3,006	9.3	3,700	10.3	23.1
Net income	1,768	5.5	2,227	6.2	26.0

The company projects the business results for this period (ending in March, 2015) in the table shown above. The following events are expected in the industry environment surrounding the company:

- Redevelopment of the social infrastructure will spread nationwide
- Full-scale reconstruction for the damage of earthquake in '11 March will start
- Social investments will become more active as a result of the decision to host Olympic Games in Tokyo
- Infrastructure development will become active in the ASEAN member nations

As a result, favorable business environment will be expected. Business results in this period is expected to post increase in income and profit as shown in the table above regardless of concerns about worker shortage and delay in work progress at some work sites because these problems have not become obvious so far. Although it is necessary to keep a close watch on the future industry trends, it seems at this moment the projections above are highly likely to be achieved.

Future prospects: For achieving the new midterm management plan

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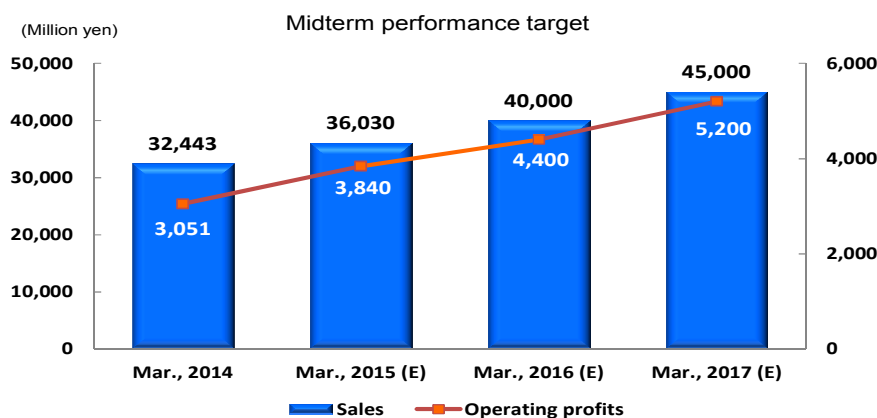
The company had announced the midterm management plan for a 3-year period (FY11 ending in March, 2012 to FY13 ending in March, 2014) based on the business results in the FY10 ending in March, 2011 (¥17,490 million for the sales, ¥612 million for the ordinary income). Although the original targets for the final fiscal year ending in March, 2014 were ¥30,000 million for the sales and ¥2,100 million for the operating profits, the actual results have greatly exceeded these targets.

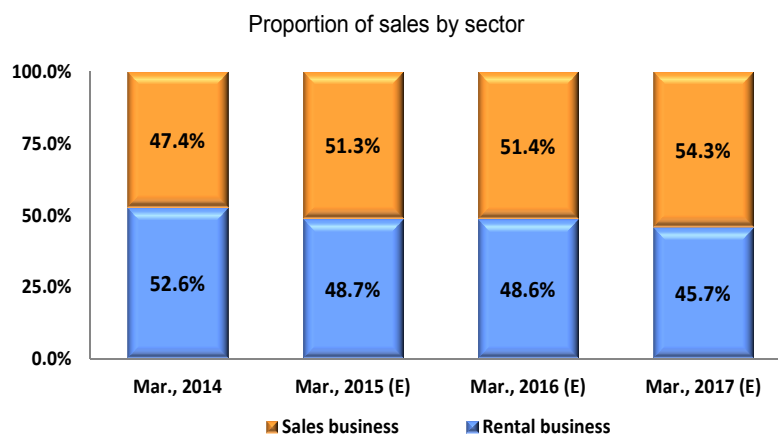
This achievement is mainly due to a great contribution of the affiliated Hory. In addition to this, the group of subsidiaries purchased in M&A which has been performed to expand business areas has also contributed. Other factors for this achievement include the improved handling efficiency of equipment and materials and unit prices in the leading rental business as a result of improved business environment, such as promoted infrastructure development, facilitated by the new administration of Prime Minister Abe.

<New midterm management plan>

The company has announced a new midterm management plan for a period ending FY2016 (ending in March, 2017) in light of the achievement of the previous midterm management plan. The target values specified in this plan are shown in the figure below, aiming to achieve ¥45,000 million for the sales (up by 38.7% over the result in the FY13) and ¥5,000 million for the ordinary income (up by 66.3% over the result in the FY13).

Proportions of sales by sector are shown in the figure below. It is planned that sales of the sales business will account for 54.3% of the total sales amount of ¥45,000 million in FY16 (ending in March, 2017) and the sales of the rental business will account for 45.7%.



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The company has announced the following management policies to achieve the management plan targets.

(Basic policy)

✓ Enhancement of the group management base

Clarify a role of each group company to consolidate duplicate functions and complement insufficient functions.

Establish the stable customer bases with further enhanced cooperation in marketing activities and, at the same time, facilitate information sharing and faster operational reforms with cooperation through IT.

In addition, accumulate technological know-how to improve the technological capability and capability of product development.

✓ Establishment of system that earns higher profits

Make the next generation scaffolding “Iq System” a de facto standard particularly through a coherent system of manufacturing, sales, and rental.

In addition, further reduce costs by networking offshore manufacturing and outsourcing, and improve the profitability by such measures as reviewing loss-making businesses and improving the handling efficiency of equipment and materials.

✓ Creation of new growing businesses

Positively work on the following actions: creation of new businesses utilizing the metalworking technologies, expansion of the drawing outsourcing business, establishment of the overseas business bases, and expansion of the business areas through M&A

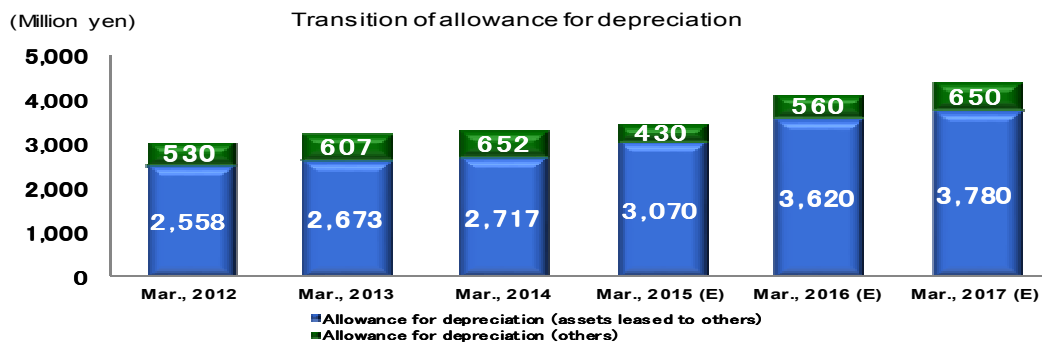
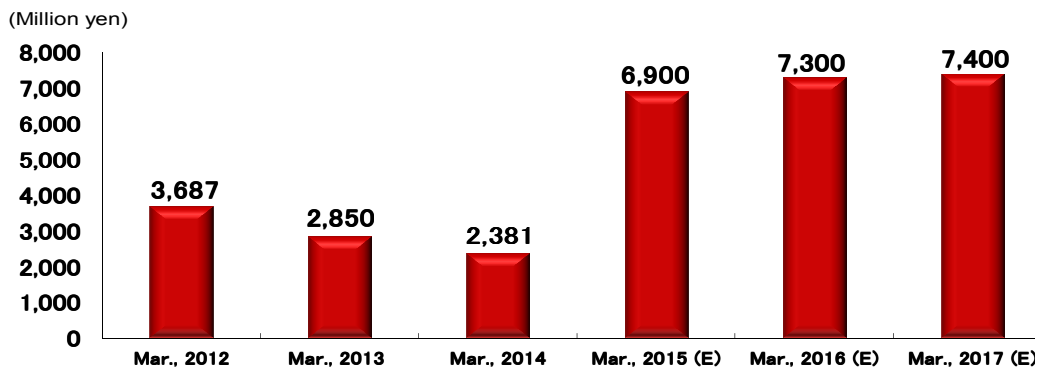
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(Investment policy)

✓ Replacement of assets leased to others

Positively invest in assets leased to others and promote replacement with new equipment and materials (prefabricated scaffolding => Iq System). It is planned that approximately ¥20 billion in total will be invested in assets leased to others in the next three years as shown in the figure below. Among the amount of the investments, approximately ¥10 billion is planned to be invested in the next generation scaffolding "Iq System." By doing this, it is estimated that the ownership ratio of new equipment and materials such as the Iq System and YT locks will increase to 20% by FY16 (ending in March, 2017) from 6% in FY13 (ending in March, 2014), giving an overwhelming advantage to the company over competitors in the same industries.

Amount of investment in assets leased to others(Purchase base)



✓ Other investment

The company plans positive investments not only in assets leased to others but also in other fields. Production equipment will be enhanced as well because it is planned to increase the sales not only of the rental sector but also of sales sector. Furthermore, offshoring (overseas manufacturing) will be promoted.

Also, in addition to investments in hardware assets (such like assets leased to others and production equipment), the company is planning on making M&A and alliances to expand the business and group functions. Human resource

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training and development of group executives will also be invested.

<Important measures for achieving targets>

The company has announced a confident midterm management plan for the next three years as shown above. Although not easy, it is not completely impossible to achieve these targets. It is obvious that “further growth of the manufacturing and sales sectors” in addition to “expansion of the rental business area” is the requirements for the company to achieve these targets. To meet these requirements, it is necessary to take various measures. The particularly important measures are “effective investment in new equipment and materials” and “enhancement of development capability in the manufacturing and sales sectors.”

(Effective investments in new equipment and materials)

The leading rental business will be expanded centering around the following two measures.

✓ Expansion of the business areas

The company has expanded the business areas to wider fields such as from construction work => bridge work => urban civil engineering => soil improvement work => disaster prevention work of slopes => demolition work so far. This is a result of positive M&A in addition to its own development and exploitation. This policy will not change. The company continues to challenge to new fields and, at the same time, promotes M&A if the opportunity arises.

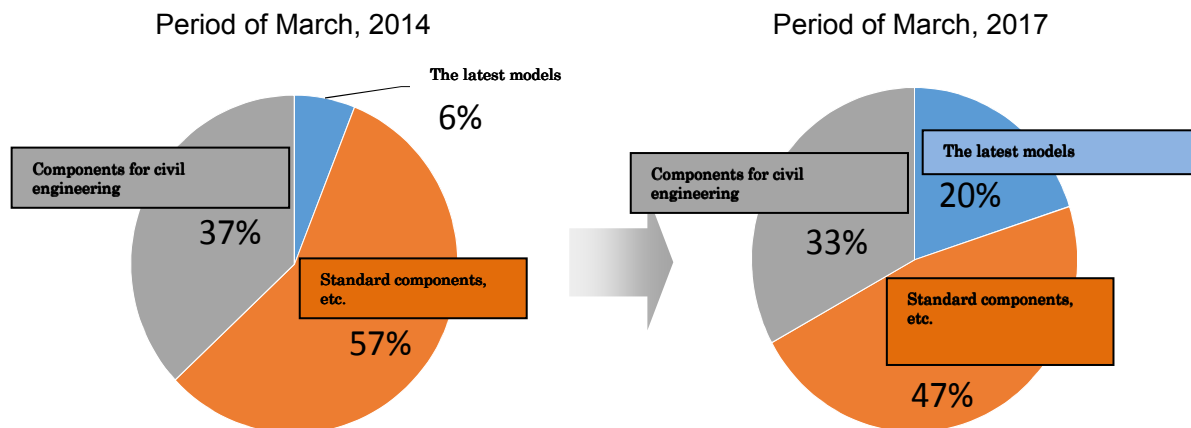
It is true that the rental business itself is influenced by the external environment (trends of public investments, and construction and housing markets, etc.) In other words, it is inevitable to be “cyclical business.” However, it seems possible to raise the bottom line of the rental business by expanding the business areas as mentioned above. By doing this, a business structure in which a certain level of profits can be ensured even in the unfavorable external environment can be established, which is important to achieve the future growth.

✓ Differentiation with new equipment and materials

The other important measure for the rental business is “effective investment in new equipment and materials.” As mentioned before, the company is planning to significantly increase investments in assets leased to others, particularly in new equipment and materials centering around the Iq System. By doing this, it is estimated that the ownership ratio of new equipment and materials such as the Iq System and YT locks will increase to 20% by the FY16 (ending in March, 2017) from 6% in the FY13 (ending in March, 2014) as shown in the figures below, differentiating the company from competitors in the same industries and giving an overwhelming advantage.

[Changes in Composition of Rental Asset Holdings by Asset Type]

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The latest models	Iq System, YT lock, Lift Climber, etc.
Standard components, etc.	Scaffolding frames, pipe, clamp, and others
Components for civil engineering	Falsework, etc.

Proceeding investments in (replacement with) the latest models is apparently easy but actually difficult. If it requires only purchasing, any company can do it because they just need to inject funds. Only purchasing increases the entire stock of materials, resulting in a lower usage efficiency (stock turnover). Therefore, in fact, it is necessary to proceed with selling used materials while purchasing new equipment and materials. This means that you need to maintain highly efficient stock levels while ensuring funds by selling used materials.

It may be no exaggeration to say that the achievement of the midterm management plan depends on the successful future replacement of used materials with new ones. Therefore, it will be necessary to watch the future trend of material investments.

(Enhancement of development capability in the manufacturing and sales sectors)

Needless to say, further growth of the manufacturing and sales sectors is essential if the company is to achieve the targets of the midterm management plan. Although, it is true that the sales sector centering around Hory has greatly contributed to target achievement of the previous midterm management plan, it mainly came from the increase in the existing products (solar-energy-related business, housing-related business, etc.). However, although the sales of existing products are expected to increase to some extent, further growth will require increase in sales of new products. To achieve the targets of the new midterm management plan, the important key will be whether the company can develop and commercialize

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such new products, i.e. enhancement of development capability for new products.

The rental sector of each group company centering around the company will successfully pick up market needs, give feedback about them to Hory serving as the manufacturing sector and other companies, and commercialize them as a group. It is very easy to say but a lot harder to do. If the company group, however, continues to implement measures like this, the profitability of the company group will be significantly improved. The company structure of the group will also change to a conglomerate, which possesses sectors of product development, manufacturing, sales, and rental, from merely a rental company. In that sense, it is necessary to pay attention not only to figures of sales and operating income but also to contents (distribution of which product groups) when watching the performance of the sales sector in the midterm management plan for the next three years.

It may be a little exaggerated but the performance of the sales sector for the next three years will determine whether the company can truly become a “Company mentioned by Darwin,” (see the note) and it should be closely watched.

[Note: Company mentioned by Darwin]

There is a famous phrase of Charles Darwin who was a renowned biologist. According to some survey, this phrase is most frequently quoted in New Year’s instructions and initiation ceremonies by the presidents of major listed Japanese companies. The phrase is as follows:

“It is neither the strongest nor the most intelligent who will survive, but those who can best manage change.”

It is said that this phrase can be applied to any companies. It means that “It is neither the largest company nor the most resourced company which will be the last winner, but those which can best manage change and adopt environments.”

Summary

SRG Takamiya is a leading company in the rental of lightweight temporary construction equipment and materials, being only one as the listed company in the industry. Due to the weak demand for the domestic construction sector, the company’s profits once slowed down. The company, however, has reached historical profits in the previous fiscal year (ending in March, 2014) because environment surrounding the company has completely changed to better in one and a half years in addition to the fact the measures and policies including M&A that the company has implemented in the past are bearing fruit.

Subsequently, the company has announced the new midterm business plan (targeting ¥45 billion for the sales and ¥5.2 billion for operating income by the FY16 ending in March, 2017). With the growth of manufacturing and sales subsidiaries, the company has further shifting its business to manufacturing and sales instead of remaining as a mere rental company in the past several years. With this shift, the company is likely to achieve these confident targets, but the rental business will need to be closely watched whether “replacement with the new equipment and materials will proceed smoothly,” and

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“development capability will be enhanced.”

The company now has more positive and favorable attitude about the investor relations (IR) than before, and thus it will be necessary to even more closely watch the trend of their business results, change to the business categories, and stock price in the years to come.