COMPANY RESEARCH AND ANALYSIS REPORT

FJ Next Co., Ltd.

The company name was changed to FJ NEXT HOLDINGS CO., LTD. on October 1, 2021.

8935

Tokyo Stock Exchange First Section

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Summary

Develops asset management-type condominiums under the Gala brand. Results declined temporarily in FY3/21 due to the impact of the coronavirus pandemic, but there has been no change to the favorable external environment and expects higher sales and profits in FY3/22

1. Company profile

FJ Next Co., Ltd. <8935> (hereafter, also "the Company") conducts its mainstay business of the development and sales of the Gala Condominium series, which are asset management-type condominiums located mainly in the center of Tokyo, and the Gala Residence series, which are condominiums for families. It also conducts a real estate management business, primarily for the properties that it has sold. It secures high occupancy rates through planning and development that are based on the residents' perspectives, such as for design features, safety, and comfort. In this way, it has increased the value of the Gala brand and boasts the leading sales performance in the Tokyo metropolitan area. The Company's results have been steadily expanding because demand is strong from individuals who feel concerns about the future, such as about receiving a pension, and also who are facing new problems, such as planning a response to inheritance tax. Although the Company's FY3/21 performance temporarily declined due to being affected by the impact of the coronavirus pandemic (including exercise of self-restraint in some sales activities), fundamentally there have been no changes in regard to the external environment that is providing a tailwind (such as residents' needs and the financial environment), so it is aiming for sustainable growth in the future also.

2. Summary of the FY3/21 results

In the FY3/21 results, net sales declined 14.0% year on year (YoY) to ¥72,988mn and operating income decreased 29.4% to ¥7,351mn due to the impact of the coronavirus pandemic, and the results were below the record-high results achieved in the previous period. However, it can be said that the Company could maintain results at a high level even during the coronavirus pandemic. The main reason why the results were below those in the previous period was that because of the coronavirus pandemic, the number of condominium units sold in the real estate development business decreased to 2,013 units (down 542 units YoY). In particular, results were impacted by the decline in the 1Q due to the temporary self-restraint on sales activities following the first declaration of a state of emergency. But from the 2Q onwards, the results recovered to the same level as in the previous period, mainly sales of newly built condominiums, and it seems that even during the coronavirus pandemic, there has been no fundamental change in demand for asset management-type condominiums. On the other hand, in the real estate management business, which is a source of stable earnings, results steadily grew due to the rise in the number of managed rental units. Results were also strong in the construction business. Although the Japanese inn business was partially impacted by the coronavirus pandemic, the Company was able to reduce the extent of its impact to the minimum, due to effects such as the Go To Travel campaign.

3. FY3/22 forecasts

For the FY3/22 results, the Company is forecasting higher sales and profits, with net sales to increase 11.0% YoY to ¥81,000mn and operating income to rise 8.8% to ¥8,000mn. The impact of the coronavirus pandemic in the future remains unclear, and in this situation, it anticipates that results will not completely return to the level seen before the coronavirus pandemic. Based on this, the outlook is that the recovery to a certain extent of the real estate development business will contribute to the increase in sales. The number of units sold is forecast to be 2,400 units (up 387 units YoY). In profits also, while an increase in profits will be realized through the higher sales, the forecast operating income margin is conservative at 9.9% (10.1% in the previous period). For the dividend, alongside the higher profits, the Company plans to increase the dividend per share by ¥4 YoY to ¥48 (interim ¥24, period-end ¥24).

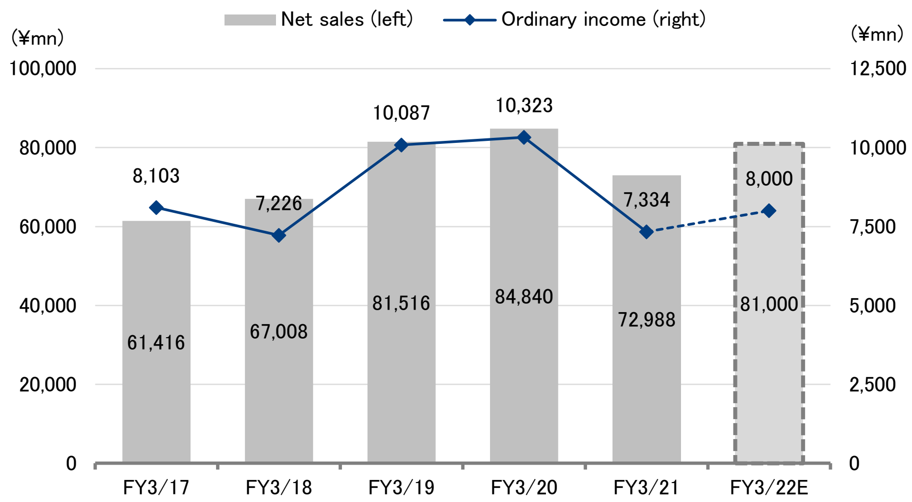
4. Growth strategy

The Company's policy is to realize sustainable growth by playing a socially significant role through its asset management-type condominium business, including by providing high-quality housing in the city center areas into which the population is regressing, and providing opportunities for long-term asset management, mainly for general office workers. Recently, there has been a trend for major developers to enter the asset management-type condominium market, and this can be said to be evidence of the fact that this market is recognized to be attractive. Real estate for rent under the coronavirus pandemic is generally stable and demand for asset management-type condominiums has been confirmed to be strong. It seems important for the Company to continue with activities that will link its own growth to the development of the market as a whole through conducting sales with an eye to the future, such as utilizing content marketing (a membership base of around 200,000 people).

Key Points

- Due to the impact of the coronavirus pandemic, the FY3/21 results were below the record-high results achieved in the previous period, but continued to be maintained at a high level
- Results were impacted by the decline in the 1Q due to the self-restraint on sales activities following the declaration of a state of emergency. But from the 2Q onwards, results recovered to the same level as in the previous period, and there has been no change to demand for asset management-type condominiums even during the coronavirus pandemic
- For FY3/22, the Company is forecasting higher sales and profits due to the recovery to a certain extent of the number of condominium units sold
- Going forward, the strategy is to link its own sustainable growth to the development of the market as a whole, as a leading company

Results trends



Source: Prepared by FISCO from the Company's financial results

Company profile

Focuses on an asset management-type condominium business based in central Tokyo

1. Business overview

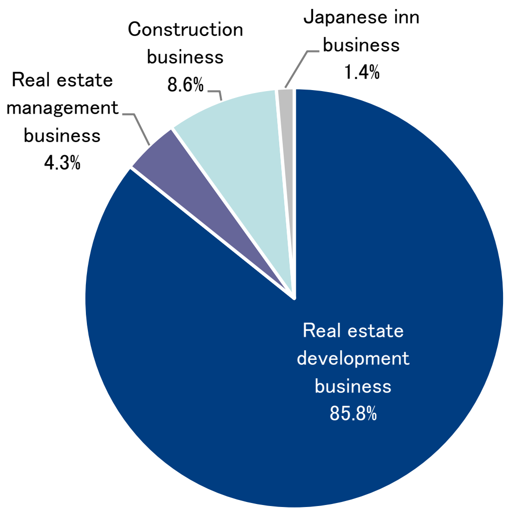
The Company's mainstay business is the development and sales of the Gala Condominium series, which are asset management-type condominiums located mainly in the center of Tokyo, and the Gala Residence series, which are condominiums for families. It also conducts a real estate management business, primarily of the properties that it has sold. It has four business segments: the real estate development business, the real estate management business, the construction business, and the Japanese inn business. The mainstay real estate development business contributes 85.8% of net sales.

Business content by segments

Real estate development business	The Company plans, develops, and conducts sub-lot sales of the studio-type condominium Gala Condominium series, which are mainly for asset management, and the family-type condominium Gala Residence series. It also conducts sub-lot sales, sales, and a brokerage business for land and properties in the Izu region. It is actively working to expand purchases and sales of previously owned condominiums.
Real estate management business	The Company mainly conducts a rental building management business of its sub-lot condominiums. It is conducted by the Company's consolidated subsidiary, FJ COMMUNITY CO., LTD.
Construction business	It mainly conducts the design, construction, inspection, and renovation of condominiums and other buildings. It is conducted by the Company's consolidated subsidiary RESITEC CO., LTD.
Japanese inn business	The Japanese inn business manages the Ito Yukitei and Ito Yukitei Kawana Bettei hot spring ryokans (Japanese inns) in Ito City, Shizuoka Prefecture, the Gyokuhokan hot spring ryokan in Kawazu Town, Kamo District, Shizuoka Prefecture, and the Seiryuso hot spring ryokan in Shimoda City, Shizuoka Prefecture. Operations are conducted by the Company's consolidated subsidiary FJ RESORT MANAGEMENT CO., LTD.

Source: Prepared by FISCO from the Company's materials

Sales ratios by segment (FY3/21)



Source: Prepared by FISCO from the Company's financial results

2. History

Mr. Yukiharu Hida, the Company's current Chairman has said that "We want to support customers' asset management and increase the value of their real estate by creating high-quality living spaces that people will enjoy living in, and by building a comprehensive asset management and management system in order to maintain asset value over the long term," while its management philosophy is "Contributing to the formation of an affluent society through taking on the challenge of creating urban living spaces." Based on these philosophies, the Company was established in July 1980 as Fudo Juhan Co., Ltd.

In 1991, it changed its company name to FJ Next Co., Ltd. In 1994, it launched sales of the Gala Condominium series, which is its own brand, and its results have steadily expanded against the backdrop of growth in demand for rental properties and also the demand for purchases in the Tokyo metropolitan area. In particular, the Company's results have been supported by the improvement in the trust placed in and the awareness of the Gala brand, which prioritizes profitability based on a calculation of a profit-return method.

When the Company was listed on JASDAQ in 2004, its credit and financial strength as a listed company, in addition to its track record of supplying properties up to that time, gave it an advantage in sales and supply development, which accelerated its growth. In 2005, it ranked first for the first time in the number of investment condominiums supplied in the Tokyo metropolitan area (from research by the Real Estate Economic Institute Co., Ltd.). It was listed on the Second Section of the Tokyo Stock Exchange (TSE) in March 2007, and then upgraded to the First Section in October 2013. Recently, in the primary determination of the status of conformance with the listing maintenance standards in the TSE's new market classifications, the Company was notified that it complies with the Prime Market standards.

In the ranking of the number of investment condominiums supplied in the Tokyo metropolitan area (from research by the Real Estate Economic Institute Co., Ltd.), the Company has maintained a top-class ranking (recent rankings are No. 1 in 2019 and No. 2 in the first half of 2020) and has established a leading position within the industry.

The Company has announced that in October 2021, it will change its corporate name to FJ Next Holdings and transition to a holding company structure. Alongside this, in June of the same year, it resolved to transfer the real estate development business to FJ Next Co., Ltd., which was established in April 2021.

Characteristics of the Company

Leveraging its position in the industry, its strengths are creditworthiness, financial strength, and information volume

1. Growth model

The Company's growth model is comprised of two growth drivers: expanding the asset management-type condominium market itself and maintaining and improving its market share. In other words, to understand its growth potential, it is important to ascertain two aspects: whether asset management-type condominium market in the Tokyo metropolitan area (particularly the city center) will develop, and how will the Company be able to demonstrate its competitive advantages considering this development. In addition, a feature of the real estate management business, which is ancillary to the main business, is that it supports profits as a stock business that accumulates income.

Moreover, recently, the Company has been active in areas such as the development and sale of family-type condominiums* and the handling of previously owned condominiums. Its main business is providing asset management-type condominiums on the assumption that they will be held for the long term. But business development into fields utilizing the management resources it has cultivated up to the present time (including its financial base and information capabilities) can be expected to improve results while also reducing risk, and thereby have the effect of adding depth to the profit structure (management stability).

* The (cumulative) number of family-type condominiums supplied in the Gala Residence series has steadily increased to 1,791 units. Looking to the future also, it is currently progressing new projects including Gala Residence Kawasaki Premier (scheduled to be completed in March 2022) and Gala Residence Sagami Otsuka Ekimae (scheduled to be completed in September 2022).

2. An overview of asset management-type condominiums and their future development potential

In order to judge the future development potential of asset management-type condominiums, it is necessary to understand their mechanism, product characteristics, and social significance.

(1) Mechanism

The objective for asset management-type condominiums is not for the purchaser (the owner) to live in them, but to earn rental income by renting them to a third party. Therefore, the Company stably generates rental income, and thereby builds the trust of the owners, by securing high occupancy rates through the development of condominiums that ascertain the needs of residents, in addition to having good locations.

(2) The aim and merits for the owners

Following the increased awareness of its products, many owners in recent years have been general office workers, and in most cases, they purchase with the aim of conducting asset management for the future. While securing the funds for the purchase from a home loan, generally, the monthly repayments are within the range of rental income and the owners' plan is to complete the repayments by the time they retire. Therefore, in principle, they can carry out asset management for the future from a long-term perspective without it affecting their daily lives. Also, in addition to the fact that stable rental income plays the role of a private pension in old age, a feature is that they have various other financial benefits, including replacing life insurance with a home loan set with group credit life insurance, responding to inheritance tax measures (reducing the inheritance tax assessment amount) and diversifying investments. In particular, in addition to the introduction of a negative interest rate policy and concerns about receiving a pension in the future, the need for new measures to respond to inheritance tax (such as the increase of taxable income due to the reduction in the basic exemption) has drawn attention to asset management-type condominiums.

(3) Social significance

The main customer group for asset management-type condominiums is general office workers, and the business has the social significance of providing opportunities for long-term asset management while offering high-quality rental properties in city center areas into which the population is regressing. In the future also, it is forecast that the trends of an increase in the number of single-person households and the regression of the population to city centers will continue. It considered that the importance of providing infrastructure to support single persons living actively in city centers will increase more and more.

3. The Company's features (competitive advantages)

The Company boasts the highest number of units sold in the Tokyo metropolitan area, and its competitive advantages can be summarized as follows.

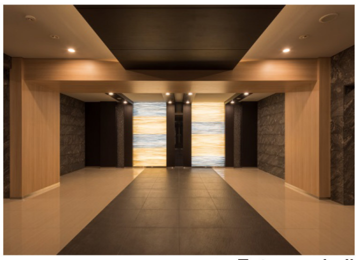
(1) Provides high-quality living environments based on a clear product concept

The Company is developing the asset management-type Gala Condominium series and the family-type condominium Gala Residence series as its own brands. It conducts planning and development from the perspective of residents, which has increased the value of the Gala brand, and this is demonstrated by its track record of supplying properties and high occupancy rates up to the present time. In particular, the features of its mainstay, asset management-type Gala Condominium series are entrances with a dignified feeling, external appearances featuring excellent designs, safety, and facilities specifications that emphasize comfort. The construction business divisions within the Group are responsible for construction inspections, which contributes to improving the quality of properties sold. Gala Hills Shinjuku won the National Association of Living Industries'*1 4th Excellent Project Award*2 in 2014, and Gala Precious Kawasaki won the 7th Excellent Project Award in 2017. In addition, based on the expertise that the Company has cultivated for asset management-type condominiums, the features of the family-type condominium Gala Residence series are easy traffic access, a surrounding environment that is rich in amenities and convenience, and advanced design features with high basic performance.

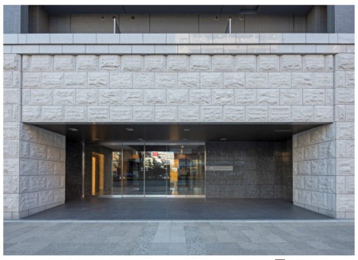
*1 This organization has 1,700 companies in Japan in the real estate industry, mainly consisting of mid-sized companies but also including listed companies.
*2 With the aim to promote quality housing provision and development of living environments, etc., this award is bestowed upon excellent projects, selected from among projects implemented by members of the National Association of Living Industries, that excel in creativity to form good living environments through sociability, product planning, residential performance and design, as well as harmony with the townscape, surrounding environment, etc.

Gala Precious Kawasaki (a total of 273 units)


Exterior


Entrance hall


Front services counter

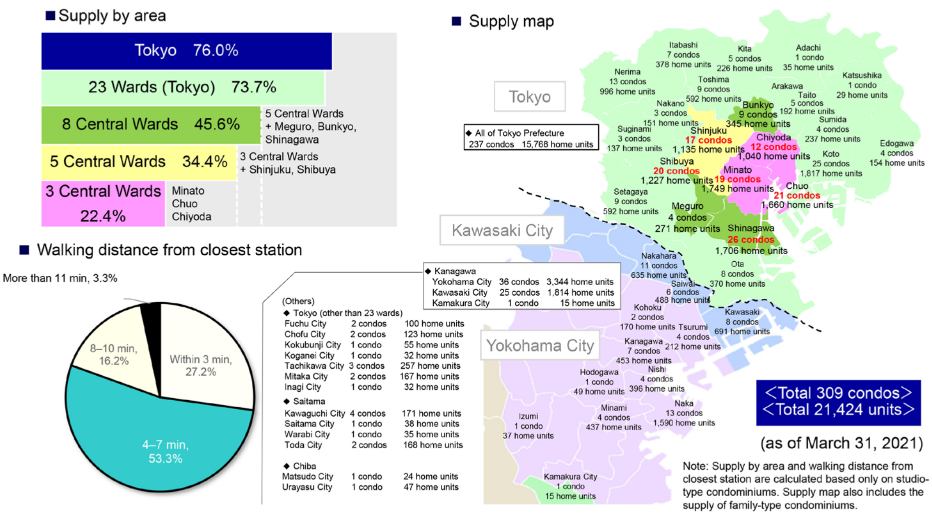

Entrance

Source: The Company's press release

(2) Focuses on good locations and information capabilities

It goes without saying that the most important element in the evaluation of the asset value of rental housing is a good location. Therefore, whether a company is able to purchase land in good locations will greatly influence its competitiveness. On the other hand, there is a tendency for location information to gather in companies with a track record of results and financial strength, so there is an industry structure in which the strong become even stronger. In the case of the Company, it has industry-leading sales results, strong brand power, and a stable financial base. It also has a competitive advantage in terms of information capabilities, and it is considered that this is producing a virtuous circle, as it further improves its sales results (it has a record of providing a cumulative total of more than 20,000 units up until now) and brand power, which in turn increases its information capabilities. The Company specializes in areas in which the need for housing is high, particularly in central Tokyo, Yokohama, and Kawasaki. In addition, it provides housing in carefully selected locations; for example, more than 96% of its properties are within 10 minutes of their nearest station.

Supply area of condominiums in the Gala brand



Source: The Company's results briefing materials

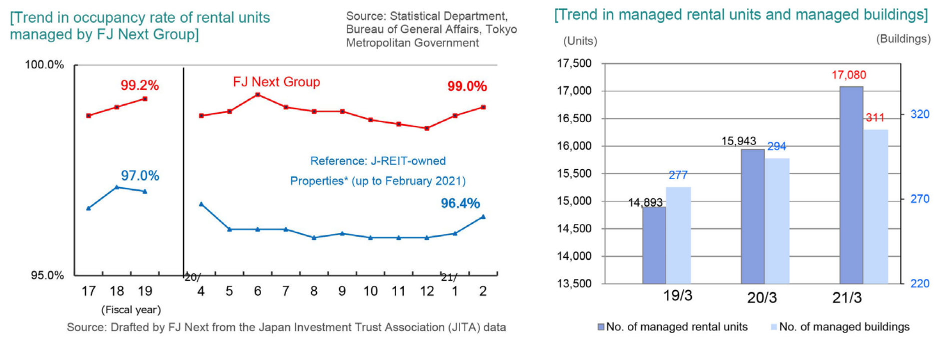
(3) High-level rental management expertise and extensive after-sales support

The Company aims to retain its occupancy rates by maintaining its asset value through real estate management of properties it sold and provision of services that are useful for the residents' lives (concierge services). In addition, it offers complete after-sales support, such as reviewing asset management plans and providing consultations on selling properties, which earns it the strong trust of owners. Looking at the results for the number of managed rental units, this number has grown steadily year by year alongside the results for the supply of its own-brand properties, and by the end of FY3/21, it had increased to 17,080 units. On the other hand, the occupancy rates have trended stably at extremely high levels, averaging approximately 99.0%* at the end of February 2021, due to the Company's strict selection of good locations and its accumulation of management expertise.

* For your reference, the occupancy rate for J-REIT-owned properties is 96.4% (as of February 28, 2021; Source: The Investment Trusts Association, Japan), so the Company's occupancy rate is above this rate.

Since October 2020, the Company has been collaborating with Cookpad Inc., and for large-scale properties with a total of at least 100 units, they have started to introduce services that can respond to the new ways of living during the coronavirus pandemic. These include installing delivery lockers that allow residents to have fresh goods ordered via an app delivered to the common area of their condominium property.

Trend in occupancy rate and number of managed rental units



Source: The Company's results briefing materials

(4) Attributes of owners and residents

The most of owners are general office workers such as company employees or public servants, with approximately 89% in their 20s to 40s. Also, even though the locations of the properties are in the Tokyo metropolitan area, the owners live throughout the country, showing that their objective for their purchase is long-term asset management. On the other hand, the residents are often company workers in their 20s to 30s living alone, and because the properties have excellent locations, facilities, and specifications, there is strong demand for them as company housing. They are also very popular among women thanks to their high-level security and kitchen and bathroom facilities.

Industry environment

Investment condominiums in the Tokyo metropolitan area are trending strongly, supported by the needs of individual investors

1. Sales environment

The number of investment condominiums supplied in the Tokyo metropolitan area steadily grew from the second half of the 1990s to the first half of the 2000s. However, it subsequently trended downward as a succession of businesses fell into bankruptcy and withdrawal due to soaring land prices and the economic crisis triggered by the Lehman Brothers bankruptcy in 2008. But this decline bottomed out in 2010, and in the last few years, rental demand in the Tokyo metropolitan area has been growing against the backdrop of the increase in the number of single-person households and the regression of the population to the city center. Furthermore, in addition to the continuing low interest rates and concerns about receiving a pension in the future, a new need has emerged for measures to respond to inheritance tax (due to the reduction in the basic exemption, etc.). While the overall condominium industry is headed towards an adjustment phase due to a rise in property prices, robust demand for purchases from individuals has supported a strong performance. The background to this is considered to be that as an asset management method for the future, purchasing an investment condominium can be expected to provide tax benefits and an insurance function, while also offering a sense of security as a stable source of cash flow and an investment in a tangible asset when compared to other assets, such as stocks, investment trusts and bonds.

In the past, there were concerns about the impact on real estate investment loans as a whole (the possibility that banks would become more cautious) following the discovery of illegal loans by a regional bank. But no change has been seen in their approach to financing investment studio-type condominiums that are in good locations and with high-asset-value, such as the Company's properties. In this situation, it also seems that the Company's track record of supplying properties, its brand power, and the stability of its financial base are factors supporting purchasing demand. This can be considered to demonstrate the reliability of the Company and its businesses model.

2. The purchase and development environment

On the other hand, in terms of purchases and development, as land purchase prices and construction costs remain at high levels, it has become even more important to ascertain which sites will be profitable, and it is increasingly likely that business results will be determined by the outcomes of land purchases. The Company utilizes its credit-worthiness, financial strength, and abundant information capabilities, and has consistently emphasized profitability in purchasing activities since its establishment.

3. Competitive environment

Its industry peers are mostly specialists in investment condominiums, and the industry structure is that there are many companies that are comparatively small in scale. In this situation, the Company has constantly achieved the leading sales results in the ranking of the number of investment condominium units supplied in the Tokyo metropolitan area. Recently, there has been a movement toward entry by major developers that have an eye on the market's expansion.

Results trends

In FY3/21, results temporarily declined due to the impact of the coronavirus pandemic. But there has been no fundamental change to the favorable external environment and the Company is securing the stability of its financial foundation at a high level

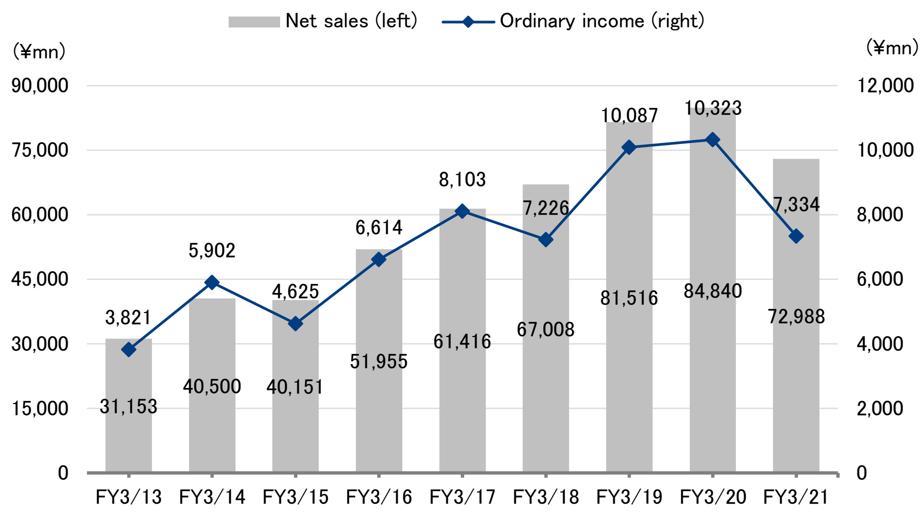
1. Trends in past results

On looking back on past results, we see that they have trended steadily as a whole, supported by growth in rental demand and the demand for purchases of asset management-type condominiums in the Tokyo metropolitan area. The results hit bottom in FY3/09 due to the effects of the economic recession following the Lehman Brothers bankruptcy. But based on its policy of continuing to make purchases based on profitability rather than focusing only on purchasing, and steadily advancing property development, the Company was able to ride out the recession with a comparatively small decline in contrast to the real estate industry as a whole, which suffered greatly. Subsequently, its results expanded steadily alongside the economic recovery. In FY3/15, there was a temporary levelling off of results due to the timing of construction completion, but since FY3/16, its sales and profits have continued to increase significantly, and net sales achieved record highs for five consecutive periods until FY3/20 (Sales declined temporarily in FY3/21 due to the impact of the coronavirus pandemic). This shows that even though the Company is now quite experienced as a company, it is still in a growth phase.

Financially, the interest-bearing debt balance has increased alongside the growth in the results, while the equity ratio is also being maintained at a high level due to the accumulation of internal reserves, and there are no concerns about the stability of its financial base.

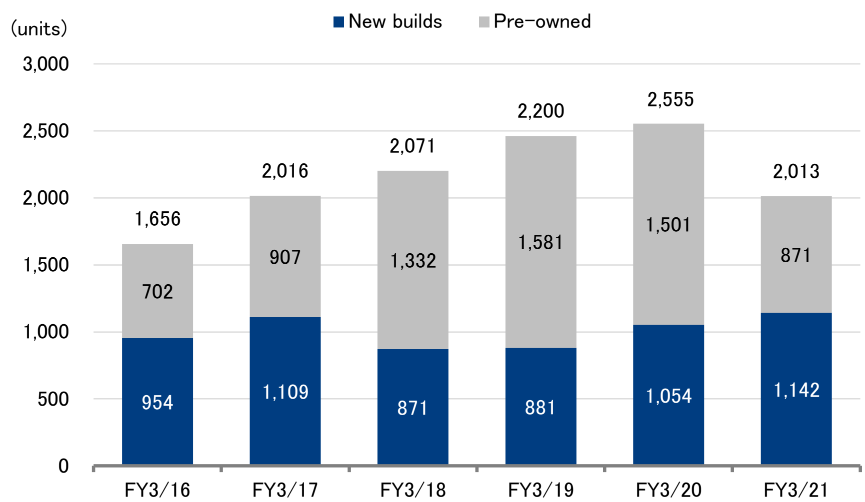
The reasons why the Company was able to ride out the severe market environment that followed the economic crisis triggered by the Lehman Brothers bankruptcy comparatively smoothly can be said to be as follows: the high asset value of the Gala brand that prioritizes profitability based on a profit-return method, including by the strict selection of good locations, and the stability of its financial base.

Trends in net sales and ordinary income

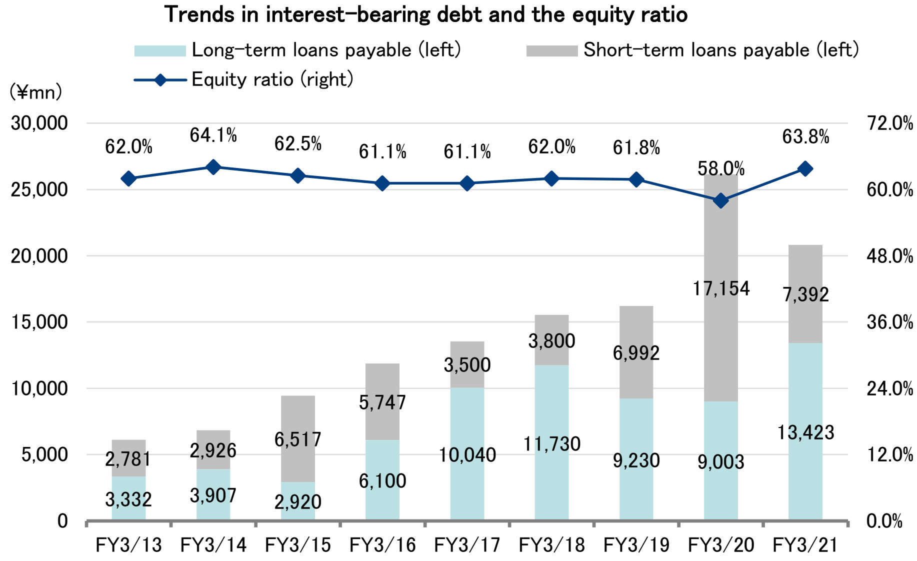


Source: Prepared by FISCO from the Company's financial results

Trend in condominium unit sales



Source: Prepared by FISCO from the Company's results briefing materials



Source: Prepared by FISCO from the Company's financial results

2. Summary of the FY3/21 results

In the FY3/21 results, net sales declined 14.0% YoY to ¥72,988mn, operating income decreased 29.4% to ¥7,351mn, ordinary income fell 29.0% to ¥7,334mn, and net income attributable to shareholders of parent company decreased 26.0% to ¥4,983mn. The declines were due to the impact of the coronavirus pandemic and the results were below the record-high results achieved in the previous period. However, compared to the initial forecasts, the results were basically within the range of expectations, and the Company can be seen as continuing to maintain results at a high level.

The main reason for the decline in sales was that due to the coronavirus pandemic, the number of condominium units sold in the real estate development business declined to 2,013 units (down 542 units YoY). In particular, results were impacted by the decline in the 1Q due to the self-restraint on sales activities following the first declaration of a state of emergency (April to May 2020). But from the 2Q onwards, the results recovered to the same level as in the previous period, mainly sales of newly built condominiums, and it seems that even during the coronavirus pandemic, there has been no change to demand for asset management-type condominiums. On the other hand, in the real estate management business, which is a source of stable earnings, results steadily grew due to the rise in the number of managed rental units*. Results were also strong in the construction business, mainly of condominium construction and large-scale repair work. Although the Japanese inn business was partially impacted by the coronavirus pandemic, the Company was able to reduce the extent of its impact to the minimum, due to effects such as the Go To Travel campaign.

* At the end of March 2021, the number of managed rental units was 17,080 units (up 1,137 units on the end of the previous period) and the number of managed properties was 311 properties (up 17 properties), both increasing significantly.

Profits declined, as they were pushed down by the decrease in sales. Land purchase prices and construction costs remained high, and in this situation, the cost-of-sales ratio trended basically unchanged. Conversely, the SG&A expenses ratio worsened, including factors such as the rise in the fixed costs burden because of the decline in sales and the increases in personnel and other expenses, so the operating income margin fell to 10.1% (12.3% in the previous period). Looking by business, in the real estate development business, profits declined due to the fall in sales. But both the real estate management business and construction business secured increases in profits. The Japanese inn business recorded a segment loss, but it was within the expected range and its impact on results as a whole was negligible.

On the other hand, for the balance of inventory assets (pipeline) that will affect results growth in the future, both real estate for sale (completed condominiums) and real estate for sale in process (development land and condominiums currently being developed) declined compared to the end of the previous period. However, with the aim of securing stable earnings, some real estate for sale was transferred to non-current assets (rental properties owned by the Company), which had an adverse impact*1. Also, while real estate for sale declined compared to the end of the previous period, it was still maintained at a high level, mainly of newly built condominiums, giving the impression that contributions to results can be expected in FY3/22. It seems that the Company has been able to secure land purchases basically as planned. Previously owned condominiums*2, which is a business that it is strategically working on, made up 871 units of the total number of units sold (2,013 units) and 501 units of the total number of real estate for sale at the end of the period (1,467 units), and they continue to contribute to results, including from rental income*3 during the period held.

*1 Within real estate for sale at the end of the period, previously owned condominiums (worth approximately ¥8.3bn) were transferred to property, plant and equipment.
*2 The Company is sequentially selling previously owned condominiums while aiming to coordinate this with the completion schedule for newly built properties. These condominiums also offer an aspect of being a stock business, with rental income being obtained during the period in which they are held. At FISCO, we are focusing on the point that these efforts for previously owned condominiums are securing earning opportunities unique to the Company, which means it is not reliant only on newly constructed properties. Moreover, for the owners, the activation (the depth of the liquidity) of the previously owned condominiums market can be evaluated as having significant merits, for when they are needed.
*3 Rental income is included in the real estate development business. In FY3/21, rental income steadily increased by 4.1% YoY to ¥7,516mn.

Looking at the Company’s financial condition, as previously stated, inventory assets declined, but property, plant and equipment increased. As a result, total assets were down 2.7% on the end of the previous period to ¥84,375mn. Conversely, shareholders’ equity increased 7.1% to ¥53,869mn due to the accumulation of internal reserves, and therefore the equity ratio rose to 63.8% (58.0% at the end of the previous period). Interest-bearing debt decreased 20.4% to ¥20,815mn and the interest-bearing debt ratio declined to 24.7% (30.2%). The current ratio, which indicates payment capabilities, is also at the high level of 535.8%, so there are no concerns about financial soundness. ROE, which shows capital efficiency, declined to 9.6% (14.1% in the previous period), but it was still secured at around the 10% level, so it can be said that the Company’s financial position is well balanced.

Results trends

Overview of FY3/21 results

(¥mn)

	FY3/20		FY3/21		YoY		FY3/22		Initial forecast	
	Results	% of sales	Results	% of sales	Change	Change (%)	vs. forecast	% of sales	Change	Change (%)
Net sales	84,840		72,988		-11,852	-14.0%	81,000		8,012	11.0%
Real estate development business	75,356	88.8%	62,588	85.8%	-12,768	-16.9%	-	-	-	-
Real estate management business	2,910	3.4%	3,162	4.3%	252	8.7%	-	-	-	-
Construction business	5,570	6.6%	6,243	8.6%	673	12.1%	-	-	-	-
Japanese inn business	1,002	1.2%	994	1.4%	-8	-0.8%	-	-	-	-
Cost of sales	64,754	76.3%	55,882	76.6%	-8,872	-13.7%	-	-	-	-
Gross profit	20,086	23.7%	17,105	23.4%	-2,981	-14.8%	-	-	-	-
SG&A expenses	9,673	11.4%	9,754	13.4%	81	0.8%	-	-	-	-
Operating income	10,412	12.3%	7,351	10.1%	-3,061	-29.4%	8,000	9.9%	649	8.8%
Real estate development business	9,085	12.1%	5,850	9.3%	-3,235	-35.6%	-	-	-	-
Real estate management business	791	27.2%	898	28.4%	107	13.5%	-	-	-	-
Construction business	518	9.3%	592	9.5%	74	14.3%	-	-	-	-
Japanese inn business	-28	-	-39	-	-11	-	-	-	-	-
Adjustment amount	46	-	49	-	3	-	-	-	-	-
Ordinary income	10,323	12.2%	7,334	10.0%	-2,989	-29.0%	8,000	9.9%	666	9.1%
Net income attributable to shareholders of parent company	6,732	7.9%	4,983	6.8%	-1,749	-26.0%	5,500	6.8%	517	10.4%
Condominium unit sales	2,555		2,013		-542	-21.2%	2,400		387	19.2%
Gala Condominium series	847		969		122	14.4%	-	-	-	-
Gala Residence series	207		173		-34	-16.4%	-	-	-	-
Previously owned condominiums	1,501		871		-630	-42.0%				
Balance of inventory assets	55,698		42,603		-13,095	-23.5%				
Real estate for sale	29,850		26,190		-3,660	-12.3%				
Real estate for sale in process	25,848		16,413		-9,435	-36.5%				
Total assets	86,719		84,375		-2,344	-2.7%				
Shareholders' equity	50,314		53,869		3,555	7.1%				
Equity ratio	58.0%		63.8%		5.8%	-				
Interest-bearing debt	26,158		20,815		-5,343	-20.4%				
ROE	14.1%		9.6%		-4.5%	-				

Source: Prepared by FISCO from the Company's financial results and results briefing materials

3. FY3/22 forecasts

For the FY3/22 results, the Company is forecasting higher sales and profits, with net sales to increase 11.0% YoY to ¥81,000mn, operating income to rise 8.8% to ¥8,000mn, ordinary income to grow 9.1% to ¥8,000mn, and net income attributable to shareholders of parent company to increase 10.4% to ¥5,500mn. The impact of the coronavirus pandemic in the future remains unclear, and in this situation, it anticipates that results will not completely return to the level seen before the coronavirus pandemic. Based on this, the outlook is that the recovery to a certain extent of the real estate development business will contribute to the increase in sales. The number of units sold is forecast to be 2,400 units (up 387 units YoY). In profits also, while an increase in profits will be realized through the higher sales, the operating income margin is expected to decline slightly to 9.9% (10.1% in the previous period), due to the conservative estimates of the cost-of-sales ratio of the various projects.

Forecast for FY3/22

(¥mn)

	FY3/21		FY3/22		YoY	
	Results	% of sales	Forecast	% of sales	Change	Change (%)
Net sales	72,988		81,000		8,012	11.0%
Operating income	7,351	10.1%	8,000	9.9%	649	8.8%
Ordinary income	7,334	10.0%	8,000	9.9%	666	9.1%
Net income attributable to hareholders of parent company	4,983	6.8%	5,500	6.8%	517	10.4%

Source: Prepared by FISCO from the Company's financial results

At FISCO, we think that it will be necessary to continue to monitor the impact of the coronavirus pandemic, if based on a comprehensive judgment, the Company's results forecasts are fully achievable. This is because positive factors include that rental demand is solid in the Tokyo metropolitan area, so potential purchase demand is also firmly rooted, and in addition it is maintaining inventory assets (pipeline) at a certain level. Looking to the new normal in the future, a point to pay attention to is how it will grow results from FY3/23 and beyond. Starting with the progress made in purchases of land and of previously owned condominiums, which are the growth axes, we shall be tracking the Company's initiatives for the future (such as establishing new sales styles and a framework to create fans alongside the new normal and creating value in residential spaces by promoting DX).

Growth strategy

A top niche strategy that connects overall market expansion with Company growth

The Company's growth strategy would seem to be to further improve management efficiency and its competitive advantages by specializing in asset management-type condominiums in the Tokyo metropolitan area (particularly in the city center), and also a top niche strategy that connects overall market expansion with its own growth. Looking at this from the opposite direction, we can see there is a growth bottleneck (constraint), in which growth is determined by market trends. Therefore, a key point for the Company, which leads its industry, would seem to be how it will promote the sound development of the asset management-type condominium market. Through partnerships with other companies, it is creating a database of prospective customers who have expressed an interest in its products (potential owners) and it is focusing its efforts into expanding the market base from a long-term perspective by aiming to increase awareness and understanding of asset management-type condominiums through various measures, such as content marketing (Gala Navi)*1 that regularly provides potential customers with information by email and other means. In April 2016, it newly established its own seminar room, and every month it holds seminars on themes in accordance with the various needs of customers, from beginner investors through to owners by such means as seminars and individual consultation sessions. We can also pay attention to the results of other activities, in which the Company actively promotes tie-up seminars (FJ College)*2 with specialists in certain fields, financial institutions and companies offering services for asset management (utilizing online seminars during the coronavirus pandemic). Moreover, the Company is progressing measures to respond to new needs, including the establishment of a local subsidiary in Taiwan (October 2014), whose role is to quickly and accurately ascertain the needs of Taiwanese investors.

*1 The Company distributes content on asset management-type condominiums and a wide range of themes such as information on life plans, money, etc. (regularly providing content exclusively for members on the website and via the e-mail magazine), and it has more than 220,000 members.
*2 It has had more than 3,000 visitors (including from online seminars). Many of these visitors were young investors aiming to form assets for the future.

In addition, while focusing on asset management-type condominiums, the Company is aiming to further expand the scope of its business and acquire earning opportunities, while its policy for its family-type condominium business is to steadily accumulate a track record of results.

At FISCO, we judge that it is highly likely that the Company will achieve sustainable growth. This is because, despite the concerns about the external environment, including the effects the coronavirus pandemic and rising land purchase prices and construction costs, the demand from residents and owners for asset management-type condominiums in the Tokyo metropolitan area is strong and there remains sufficient room for growth in the future. It is also because the Company is deploying a comparatively robust business model (such as a conservative purchasing policy and financial strength, and a focus on high-quality rental housing) and a stock business (for example, rental management operations and asset management operations, including for the properties of other companies).

Recently, there has been a trend for major developers to enter the asset management-type condominium market, and this can be said to be evidence of the fact that this market is recognized to be attractive. Even during the coronavirus pandemic, real estate for rent has been stable as a whole, which has confirmed that demand for asset management-type condominiums is firmly rooted. Because of the sense of uncertainty that prevails about economic conditions in the future, at FISCO we think it will be important for the Company to continue with activities that link its own growth to the development of the market as a whole through conducting sales with an eye to the future, such as utilizing content marketing (a membership base of around 220,000 people).

CSR and information security measures

Actively practicing CSR as the leading company

As the leading company representing its industry, the Company is actively conducting corporate social responsibility (CSR) activities and environmental measures. Specifically, it is adopting various environmentally friendly equipment, including LED lighting, environmentally friendly plywood (for example, sustainable timber supplied from forests with permission for afforestation from the government of the producing country), interior materials with low formaldehyde specifications to address sick building syndrome, air conditioners that are compliant with energy-saving standards (installed as standard), and water-saving toilets. It is also advancing the greening of the roofs of its condominiums as part of its measures to respond to the heat island effect.

Moreover, the Company is participating in the “Fun to Share” activities to prevent global warming that are being promoted by the Ministry of the Environment, and it is conducting various in-Company eco-activities, including implementing Cool Biz and Warm Biz, converting office lighting to LED, effectively using vinyl umbrellas (sharing umbrellas that are not being used within the Company), and establishing an in-Company library (recycling of unwanted books and magazines). In addition, it supports the environmental conservation activities being conducted in Akagi Nature Park (Shibukawa City, Gunma Prefecture), and is planting trees in developing countries (in Africa and Asia) through Green Site License.

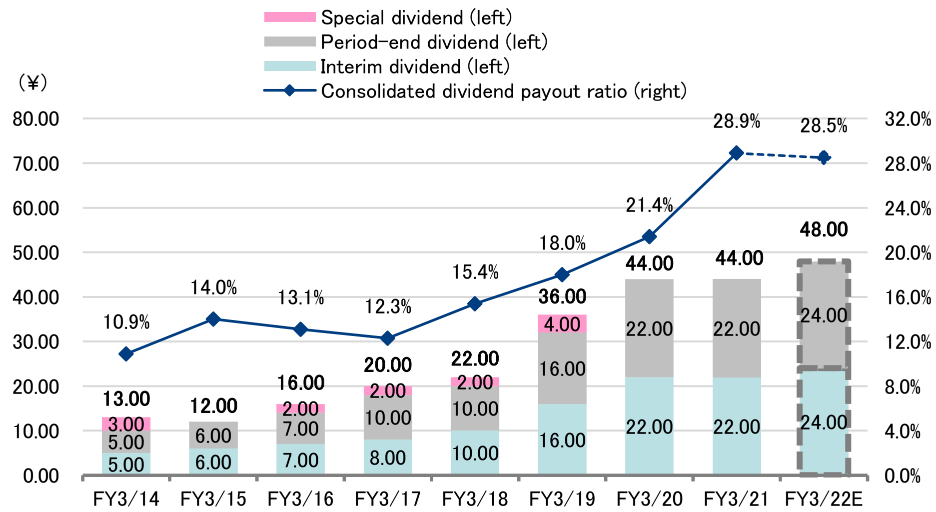
On the other hand, the Company is implementing measures to strengthen information security, including the management of personal information, which is its greatest corporate social responsibility. In November 2006, it acquired ISO/IEC 27001 certification, which is the international standard for information security management systems. In addition, it is working to build a strict management system by implementing the PDCA cycle.

Shareholder returns and share price valuation

In FY3/22, will increase the dividend through profit growth

The Company's basic policy for shareholder return is to "stably and continuously pay dividends according to profits after comprehensively considering various factors, including internal reserves for active business development and maintaining a financial balance." Even though profits declined in FY3/21, the Company maintained the same dividend per share as in the previous period of ¥44 (interim ¥22, period-end ¥22), increasing the dividend payout ratio to 28.9%. For the FY3/22 dividend, alongside the higher profits, it plans to increase the dividend per share by ¥4 YoY to ¥48 (interim ¥24, period-end ¥24, dividend payout ratio 28.5%). Going forward, we can expect continuous dividends alongside the Company's profit growth, based on the relative stability of its business and its high level of profits.

Trends in dividend per share and consolidated dividend payout ratio



Source: Prepared by FISCO from the Company's financial results

Also, as a measure for individual shareholders and to promote greater understanding of its Group's businesses, the Company has introduced a shareholder benefits program. Benefits include shareholders being able to select an item from a department store gift catalog with a value of ¥5,000, while also receiving vouchers that can be used at four hot spring Japanese inns managed by the FJ Next Group.

Looking at how the share price has trended recently, on March 23, 2021, it temporarily reached its highest price since the listing of ¥1,325, as the Company has been highly evaluated for its strong results even during the coronavirus pandemic. But subsequently it declined gradually and has been trending unchanged at a level slightly above ¥1,000. The current share price (closing price on July 30, 2021: ¥1,028 per share) is firming up with PER (forecast) remaining at 6.10 times and PBR (actual) at 0.62 times, while the dividend yield (forecast) has reached 4.67%. It is not possible to conduct a simple comparative analysis, as there are no similar listed companies with the same growth model. But starting with the fact that the First Section of the TSE's average PER (forecast) is 14.08 times and average PBR (actual) is 1.25 times, and also in consideration of various factors, such as the strong demand for asset management-type condominiums in the Tokyo metropolitan area, future development potential, and the Company's comparatively robust business model, there is the sense that its current share price level is clearly undervalued. Therefore, as its industry's leading company, it is considered that there is plenty of room for its share price to rise with asset management-type condominiums becoming further recognized as a long-term investment product. In particular, in the coronavirus pandemic, the stability (asset value) of rental housing in the Tokyo metropolitan area is being re-evaluated, so it would seem necessary to pay attention to whether this will cause the Company's share price to rise. In 2017, it was selected for inclusion in the JPX-Nikkei Mid and Small Cap Index* for four consecutive years.

* A stock price index calculated by Tokyo Stock Exchange, Inc. and NIKKEI Inc. This index applies the concept of the JPX-Nikkei Index 400, which is an index comprised of listed companies highly attractive for investors, to mid and small cap equities by selecting companies that focus on capital efficiency and investor-oriented management, and its goal is to foster greater awareness to a wider range of companies. It is comprised of 200 stocks selected from the common stocks on the TSE's First Section and Second Section, Mothers, and JASDAQ.

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