

New Constructor's Network Co., Ltd.

7057

Tokyo Stock Exchange JASDAQ

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Summary

Is disseminating safe and secure wooden structures in Japan using the SE-structure method, its proprietary construction system for wooden buildings

New Constructor's Network Co., Ltd.<7057> (hereafter, also "the Company") conducts a business for advanced structural calculations to ensure the earthquake resistance of wooden buildings. It also provides its SE-structure method, which is the Company's proprietary construction system to realize wooden buildings with high levels of structurally calculated earthquake resistance, through its franchise network of SE-structure registration contractors, mainly building contractors.

1. Overview of FY3/19 results

In the FY3/19 consolidated results, net sales were ¥6,516mn (up 7.1% year-on-year (YoY)), operating income was ¥261mn (up 41.6%), ordinary income was ¥316mn (up 38.0%), and profit attributable to the owner of the parent ¥242mn (up 43.4%). Every result exceeded the previous Company forecast, net sales by ¥6,510mn, operating income by ¥204mn, ordinary income by ¥257mn, and profit attributable to the owner of the parent by ¥183mn. Moreover, each of net sales, operating income, and ordinary income were new record highs. ROE (Return On Equity) was 17.7%.

2. FY3/20 outlook

For the FY3/20 results outlook, the forecasts are for net sales of ¥6,935mn (up 6.4% YoY), operating income of ¥285mn (up 9.3%), ordinary income of ¥349mn (up 10.5%), and profit attributable to the owner of the parent of ¥261mn (up 7.8%). The Company will continue to work to expand its market share in industry as a whole through expanding its business in the residential and non-residential fields and progressing the deployment of its house thermal efficiency calculation service. CAGR (Compound Annual Growth Rate: the average annual growth rates from FY3/17 to FY3/20) will be 5.6% for net sales and 28.9% for ordinary income.

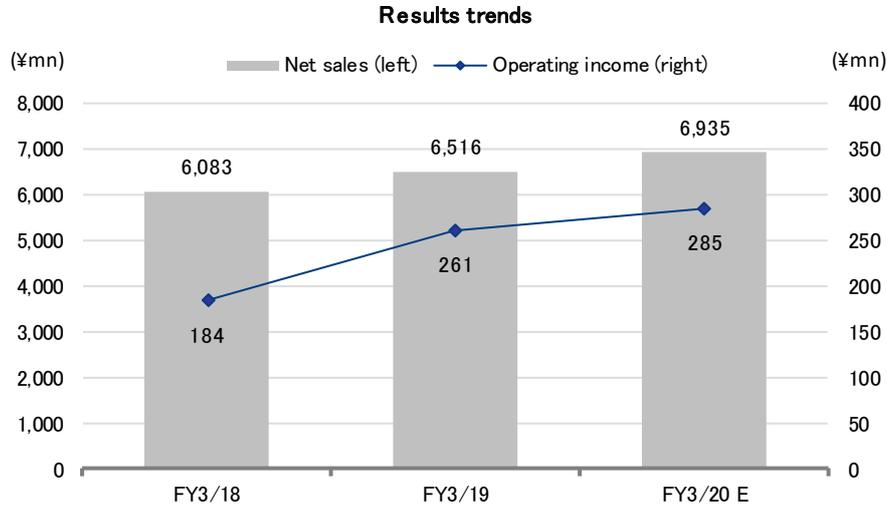
3. Thick wooden-frame house, a high value-added housing brand

Thick wooden-frame house is a high value-added housing brand that uses the SE-structure method. These homes have two merits: the ability to request community-based building contractors and housing companies which are fully familiar with the climate and environment of the local areas to design and construct, and that third parties carry out the site inspections, complete guarantees with performance, quality and assurance certified as long-life quality housing. Of more than 520 companies that are SE-structure registration contractors, 65 companies (as of the end of March 2019) have been selected as particularly excellent companies and certified as Thick wooden-frame house Premium Partners. The generic name for the homes constructed by these Premium Partners are Thick wooden-frame house, and the Company conducts training, as well as strict screening, for its Premium Partners.

Key Points

- The Company forecasts for FY3/20 are for higher sales and profits, but are still conservative
- There are more than 1.26mn wealthy households with assets worth more than ¥0.1bn
- The Japanese government is promoting the use of wood for the construction of public buildings

Summary



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

■ Company profile

Is disseminating safe and secure wooden structures in Japan using the SE-structure method, its proprietary construction system for wooden buildings

The Company conducts a business for advanced structural calculations to ensure the earthquake resistance of wooden buildings. It also provides its SE-structure method, which is the Company's proprietary construction system to realize wooden buildings with high levels of structurally calculated earthquake resistance, through its franchise network.

The Company was established in 1996 with the aims of disseminating safe and secure wooden structures and building a framework to provide homes with asset value. The Company President, Mr. Ikuo Takusari, was formerly employed in Nissho Iwai Corporation (currently, Sojitz Corporation <2768>). The Great Hanshin-Awaji Earthquake occurred in 1995, which is when he was active as a businessman in a trading company, and he witnessed the catastrophic damage to wooden housing. This informed him of the fact that wooden housing, which constitutes the majority of housing, does not employ structural calculations. So rather than being "weak because they are wooden" from the start, these structures lacked structural designs.

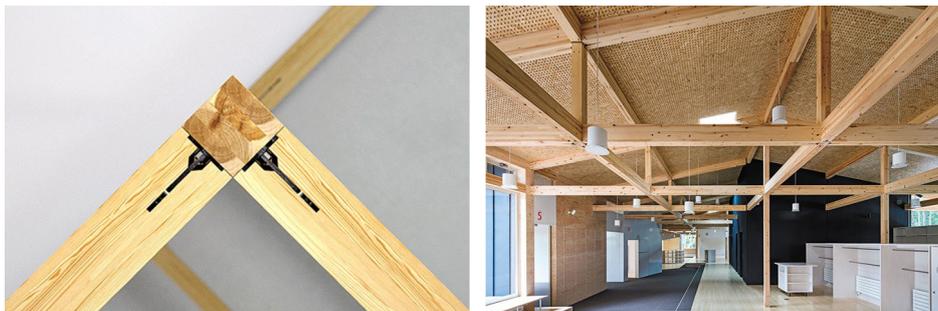
Company profile

The Company was established in 1996 as a joint venture between Seven Industries Co., Ltd. <7896> and Nissho Iwai. At that time, it requested the assistance of Mr. Shigeru Ban, the structural designer who had worked on the construction of the Nagano Olympics Memorial Arena. With Mr. Ban's expertise in large-scale buildings, it developed the SE-structure method to be used for general house building and designed innovations in wooden construction technology. Up until now, this method has been one of the Company's strengths. The SE-structure method is the Company's intellectual property, and other companies cannot duplicate it because it is the result of its accumulation of 20 years of construction experience. Due to this strength, many major housing manufacturers request its OEM supply of standard housing.

The Company name of NCN is the abbreviation of New Constructor's Network. As indicated by this name, it is working to disseminate earthquake-resistant designs by creating a franchise network of building contractors that are compatible with its philosophy and by conducting workshops on the SE-structure method. Currently, 520 companies (as of the end of March 2019) are registered in the franchise network. In a market environment characterized by declines in the population and the number of households and a fall in the number of new housing starts, it is progressing the creation of high value-added for newly constructed wooden housing and aiming to increase the average unit price. Also, MUJI HOUSE Co., Ltd., which is a joint venture with Ryohin Keikaku Co., Ltd.<7453> conducts the planning, development and sales of MUJI HOUSE, and it is adopting the SE-structure method as the standard for the nationwide development of these homes.

Based on the promotion of the use of wood by the Japanese government and the trend toward raising the ratio of earthquake-resistant structures, needs for earthquake-resistant luxury wooden homes and large-scale wooden buildings in public facilities are growing more and more. The Company's business, in which it guarantees the performance and quality of wooden homes, is growing, enabling to measure the asset values of pre-owned homes. So in the long term, it is aiming to create a pre-owned homes market in which re-sales are possible, the same as in the United States and the United Kingdom.

The SE-structure method



Source: Reprinted from the Company's website

■ Business overview

The wooden-construction, earthquake-resistant design business is the main business, while developing a new business and the MUJI HOUSE joint-venture business

1. The wooden-construction, earthquake-resistant design business

The Company conducts a business for advanced structure calculations to ensure the earthquake resistance of wooden buildings. Also, in order to realize wooden buildings with high earthquake resistance, it offers a supply-chain system, from structural calculation services to building materials, as a one-stop service. Through this system, contractor franchisees can provide high-quality buildings with customers without delay.

(1) The SE-structure method, an earthquake-resistant construction method

At first, when the franchisee gets an order, the Company ships structural calculation sheets at the design stage. Then, it sells the structure-processed parts and other products at the construction stage. It also receives registration fees and monthly membership fees from the registered construction companies. The SE-structure method is a state-of-the-art wood-construction technology that realizes both excellent earthquake-resistant performance and a high degree of freedom for spaces. The wood used in the SE-structure method for the structural framework is all "custom laminated-wood," which is extremely strong and has consistently high levels of quality. The homes also have the advantage of few cross-section defects due to the use of SE metallic materials in the pedestal parts that connect the columns and the beams. Also, to protect against the tremors that occur in a large earthquake, the Company uses a metallic material called "pedestal metallic material," which directly connects the foundation and the pillars for the parts connecting the pillars and the foundation, which are the most fragile parts. This greatly improves their resistance to separation. Moreover, the metallic materials that are bonded to the wooden materials are extremely strong, which is also a major element of the method. However, the main reason why it is said that the SE-structure method is strong against earthquakes is related to the structural calculations system. For wooden homes, the SE-structure method uses structural calculations that are supported by numerical values, the same as for steel-frame and reinforced-concrete structures.

Business overview

The features of the SE-structure method,
an earthquake-resistant construction method

<div data-bbox="325 421 729 506" data-label="Text"> <p>Excellent earthquake-resistant performance</p> </div> <div data-bbox="325 521 729 949" data-label="Image">  </div>	<div data-bbox="778 443 815 488" data-label="Image">  </div> <div data-bbox="767 539 826 920" data-label="Text"> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">A state-of-the-art wooden-structure technology that realizes both aspects</p> </div>	<div data-bbox="865 421 1268 506" data-label="Text"> <p>A high degree of freedom for spaces</p> </div> <div data-bbox="865 506 1268 949" data-label="Image">  </div>
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Source: Reprinted from the Company's data

(2) Development of a franchise network in the residential field

The Thick wooden-frame house, the housing brand that use the SE-structure method is the generic name for the high asset-value homes constructed by the Thick wooden-frame house Premium Partners using the SE-structure method, an earthquake-resistant construction method. These homes have two merits: the ability to request community-based building contractors and housing companies which are fully familiar with the climate and environment of the local areas to design and construct, and that third parties carry out the site inspections, complete guarantees with performance, quality and assurance certified as long-life quality housing.

(3) The large-scale wooden buildings (non-residential) field

In the large-scale wooden buildings (non-residential) field, the Company uses the SE-structure method to provide wooden buildings with a total floor area of more than 500 square meters. Due to the enforcement of the Act for Promotion of Use of Wood in Public Building, construction demand for large-scale wooden buildings that require structural calculations is expected to grow, and the Company is applying its expertise in earthquake-resistant designs for wooden buildings to large-scale wooden buildings to develop its business in this field. The features of its large-scale construction work include that its structures are lighter in weight than steel-frame and reinforced-concrete structures and it is able to keep down construction costs and the construction period. The SE-structure method, an earthquake-resistant construction method, realizes both excellent earthquake resistant and a high degree of freedom for spaces through the use of materials that are thoroughly quality controlled and calculated structurally.

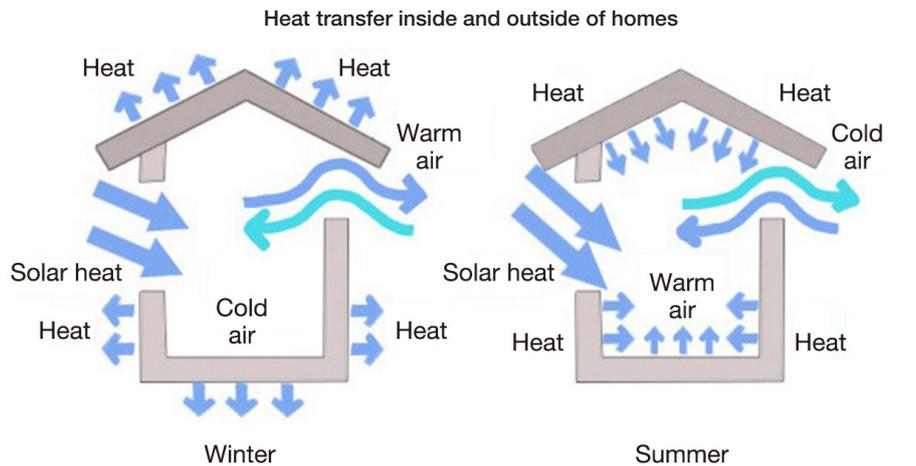
2. New business

In order to achieve its goal of “creating a mechanism to provide homes with asset value in Japan” on the main axis of the wooden-construction, earthquake-resistant design business, the Company provides a variety of services to improve the asset value of homes, including a thermal energy calculation service and a long-term high-quality housing certification agency service.

Business overview

(1) Thermal efficiency calculation service

The Company provides various services, including a thermal energy calculation service and a long-term high-quality housing certification agency service. It started providing the thermal efficiency calculation service from 2010, taking into account the addition to the evaluation standard of primary energy consumption volume following the introduction of the Revised Energy Conservation Standard in 2013 and housing demand that meets the Energy-Conservation Standards that will become mandatory from 2020 onward. The Company provides services not only for homes constructed using the SE-structure method, but also for homes constructed using other construction methods, and it is working for the dissemination of zero energy homes. In order to create fuel-efficient housing, there are a wide range of techniques for keeping down the energy consumed, and “energy conservation calculations” is the method to confirm whether each one of these techniques is functioning properly before actually constructing the home. In energy conservation calculations, the home’s thermal insulation performance, sunlight shielding performance, and energy volume consumption are each calculated using the calculation methods prescribed by the Japanese government. The Company issues an Energy Conservation Performance Report, which adds an explanation of the results for customers in addition to the results of these calculations.



Source: Reprinted from the website of the Agency of Natural Resources and Energy, the Ministry of Economy, Trade and Industry

(2) Home loan business

The consolidated subsidiary SE Home Loan Service Co., Ltd. conducts home loan agency sales only for homes constructed using the SE-structure method, and it has in place a mechanism to financially back-up home buyers.

(3) BIM Building Information Modeling business

The consolidated subsidiary MAKE HOUSE Co.Ltd. realizes the integration of data, from the design through to the production of wooden housing. It also develops and sells BIM solutions in order to provide to the market inexpensive homes with high asset value.

Since the start of the provision of the SE-structure method, the Company has conducted structural calculations for every property, of a total of more than 22,900 buildings (as of the end of March 2019). Despite experiencing the Niigata Chuetsu Earthquake, the Great East Japan Earthquake, and the Kumamoto Earthquake, not only did the homes not collapse, they did not suffer other damage, such as being fully or partially destroyed. The Company is accumulating a property database and it is considered that this database will become one of its strengths in the future.

Business overview

The MAKE HOUSE Project

MAKE HOUSE PROJECTS

MAKE HOUSEプロジェクト



Source: Reprinted from the Company's website

Results trend

In FY3/19, sales of Thick wooden-frame house were strong

1. FY3/19 consolidated results

In the FY3/19 consolidated results, net sales were ¥6,516mn (up 7.1% YoY), operating income was ¥261mn (up 41.6%), ordinary income was ¥316mn (up 38.0%), and profit attributable to the owner of the parent was ¥242mn (up 43.4%). Every result exceeded the previous Company forecast, net sales by ¥6,510mn, operating income by ¥204mn, ordinary income by ¥257mn, and profit attributable to the owner of the parent by ¥183mn. Moreover, each of net sales, operating income, and ordinary income were new record highs. ROE was 17.7%.

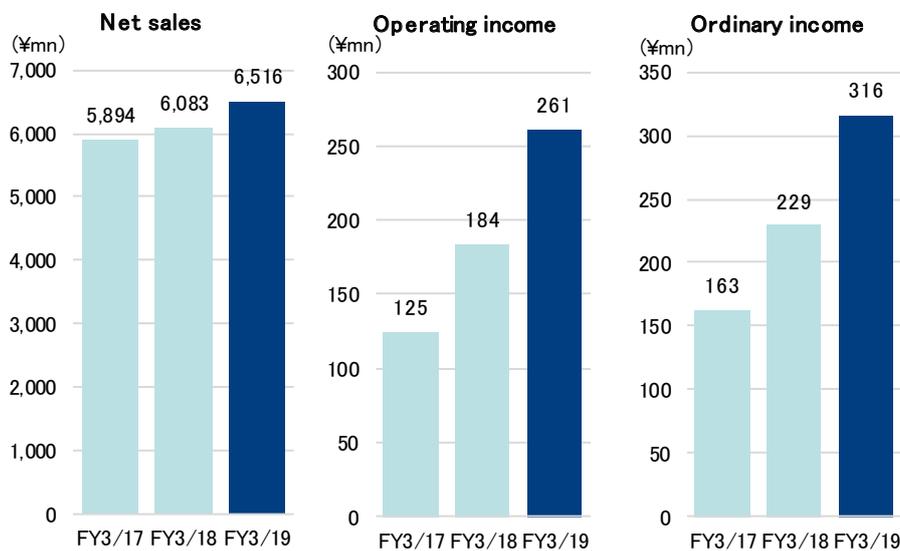
Results trends

Fiscal year	Net sales	Operating income	Ordinary income	Profit attributable to the owner of the parent	EPS
FY3/18	6,083	184	229	169	67.51
FY3/19	6,516	261	316	242	95.70
FY3/20 E	6,935	285	349	261	82.07

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

Results trend

In the residential field, sales of Thick wooden-frame house, which is a high value-added brand for building companies were strong. In the non-residential field, orders are increasing because, following the enforcement in October 2010 of the Act for Promotion of Use of Wood in Public Buildings, the use of wood is being promoted for public buildings that the Japanese government and local governments are involved in. Also, there is a movement toward using wood to construct buildings that are larger in scale than residential housing, such as hospitals and kindergartens. Under these circumstances, “zero energy homes,” which are buildings that have zero net energy consumption with use equal to renewable energy generated onsite, are being recommended to reduce energy used in homes, and the Company fully launched a service to calculate the primary energy consumption volume, which is the basic calculation for these homes in FY3/19. For the procurement of materials that will be the raw materials for the structure-processed products, the sales-cost ratio was less than expected, which was also a factor behind the increase in profits.

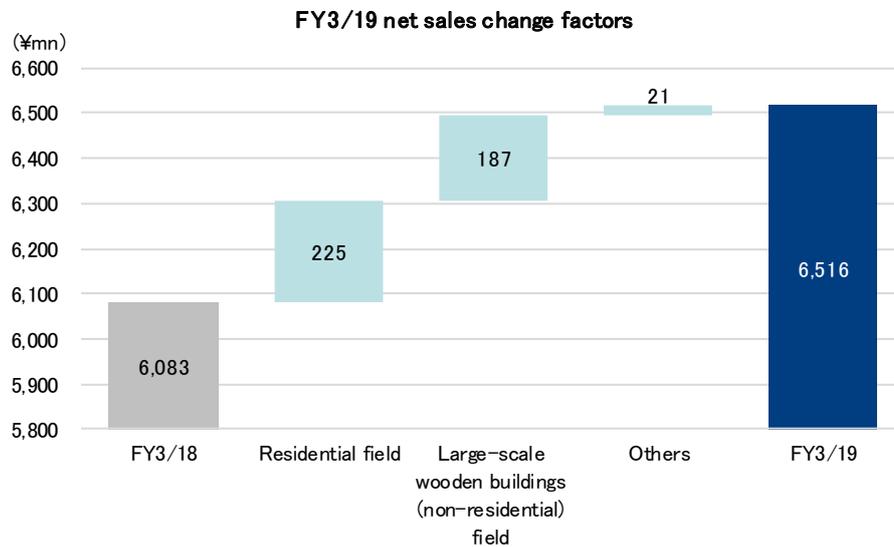


Source: Prepared by FISCO from the Company's financial results briefing materials

(1) The large-scale wooden buildings (non-residential) field is growing greatly

Looking at the net sales change factors in the YoY comparison, in the residential field which is the existing business, they increased ¥225mn; in the large-scale wooden buildings (non-residential) field which the Company is currently focusing on, they increased ¥187mn, and in others, they increased ¥21mn. In the residential field, sales increased 4% YoY, while in the large-scale wooden buildings (non-residential) field, grew greatly, increasing 75%.

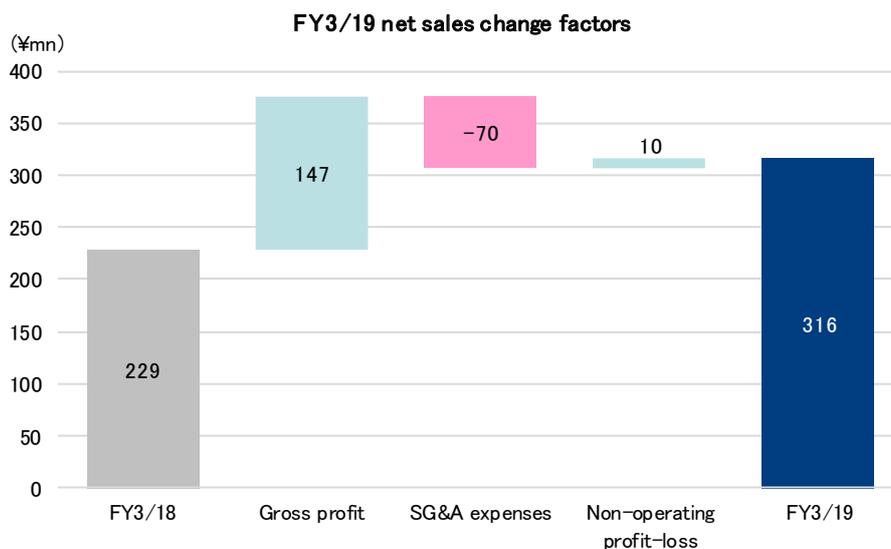
Results trend



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

(2) MUJI HOUSE is contributing to profits

The factors changing ordinary income were that gross profit increased ¥147mn, SG&A expenses decreased ¥70mn, and non-operating profit-loss increased ¥10mn. In non-operating profit-loss, MUJI HOUSE, which is provided by the equity method affiliate MUJI HOUSE, contributed to profits. MUJI HOUSE was established as a joint-venture with Ryohin Keikaku. It directly manages residential spaces, focused on MUJI HOUSE, and it is also involved in management and product planning, development, wholesales, and sales for the franchise network business. There have been no design changes to MUJI HOUSE since its foundation, and it has been proposing ways of living in homes for long periods, which creates high asset value. SG&A expenses were affected by the increases in consulting fees and payment fees, which were also temporary expenses due to the Company's listing.



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

Results trend

(3) The Cash Conversion Cycle (CCC) is small

On the balance sheet, total assets increased ¥1,090mn YoY, while in current assets, cash and deposits were ¥860mn. As for fixed assets, intangible fixed assets (an increase in software) were ¥106mn, while investment securities increased ¥32mn. Total liabilities grew ¥410mn from the effects of the ¥291mn rise in accounts payable. A feature of the Company is that its Cash Conversion Cycle (CCC) is small. CCC is an indicator signifying the number of days from a purchase until the cash is collected following a sale, and the fewer the number of days, the better the cash flow.

Simplified balance sheet

	(million yen)		
	FY3/18	FY3/19	Change
Current assets	3,228	4,179	950
Fixed assets	509	649	140
Total assets	3,738	4,828	1,090
Current liabilities	2,085	2,464	378
Fixed liabilities	606	638	32
Total liabilities	2,692	3,102	410
Capital	137	387	250
Capital surplus	10	260	250
Retained earnings	877	1,065	187
Net assets	1,045	1,725	680
Equity ratio	27.5%	35.4%	7.9pt
Net assets per share (¥)	410.05	537.75	127.7

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

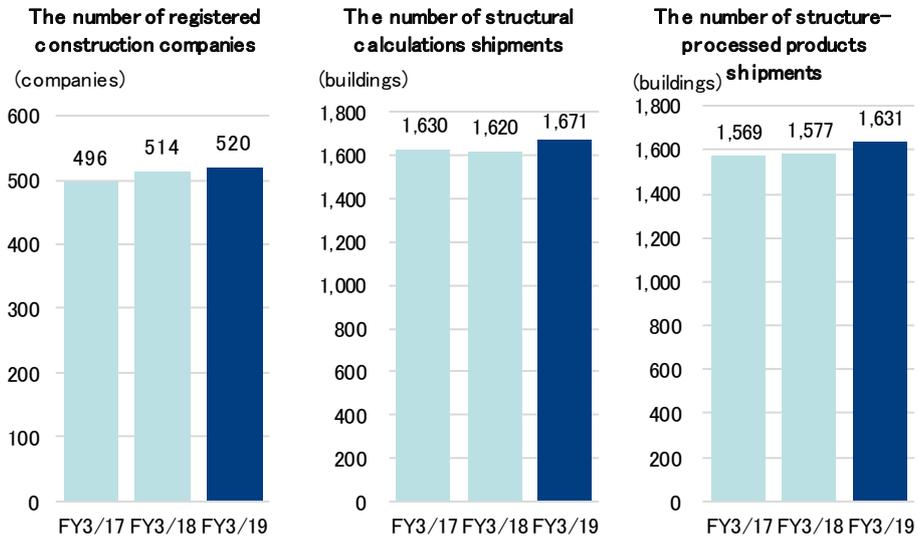
The main business is the wooden-construction, earthquake-resistant design business, but is also developing a new business and joint-venture business of the MUJI HOUSE

2. Business segments

(1) The wooden-construction, earthquake-resistant design business

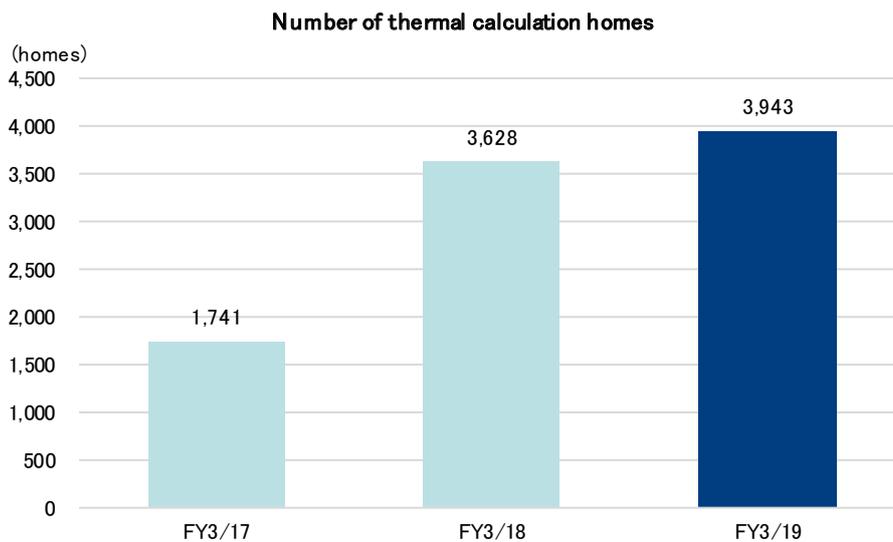
The Company is developing the wooden-construction, earthquake-resistant design business segment as its main business. Also, this main business can be categorized into the residential field and the large-scale wooden buildings (non-residential) field. Moreover, the residential field is being deployed on two lines: franchise networks and large-scale house manufacturers. In this business, the number of registered construction companies, the structural calculations shipment amount, and the structure-processed products shipment amount are all trending strongly.

Results trend



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

Others can be categorized into the new business segment, the home loan business segment, and the BIM business segment. The thermal efficiency calculation service is included in the new business segment. The number of shipments for the thermal efficiency calculation service greatly exceeds the number of structural-calculation buildings. Also, MAKE HOUSE is currently developing solutions toward the dissemination of BIM (a system to build 3D models on a computer, the comprehensive management not only of a building's design and structural calculations, but also of aspects like the selection of the construction parts, construction planning, and costs), in the wooden-construction residential field.



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

(2) MUJI HOUSE

MUJI HOUSE, which is an equity method affiliate established as a joint venture with Ryohin Keikaku, is developing a business nationwide for the newly constructed homes sector and the renovation sector.

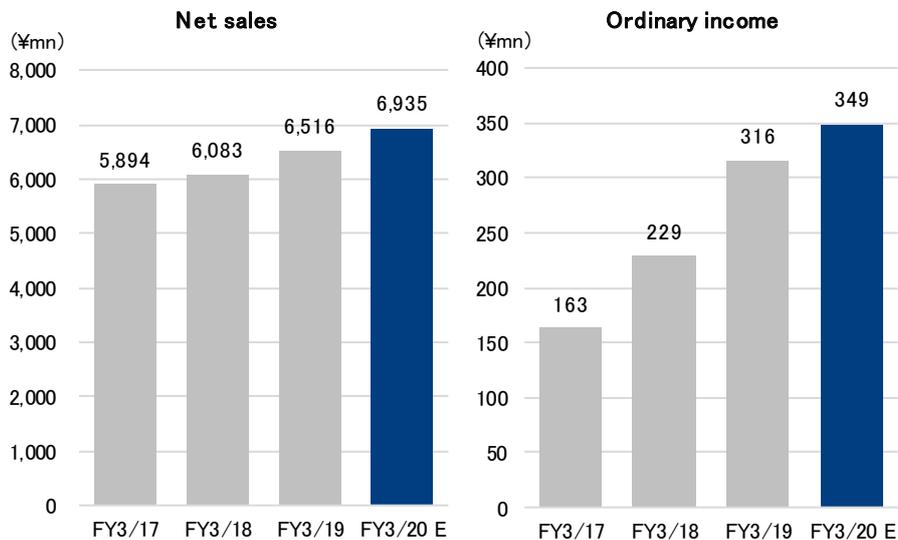
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Business Outlook

Forecasts are for higher sales and profits in FY3/20, while results may exceed the forecasts

1. FY3/20 outlook

In the FY3/20 results outlook, the forecasts are for net sales of ¥6,935mn (up 6.4% YoY), operating income of ¥285mn (up 9.3%), ordinary income of ¥349mn (up 10.5%), and profit attributable to the owner of the parent of ¥261mn (up 7.8%). The Company will continue to work to expand its market share in industry as a whole through expanding its business in the residential and non-residential fields and progressing the deployment of its house thermal efficiency calculation service. CAGR (Compound Annual Growth Rate: the average annual growth rates from FY3/17 to FY3/20) will be 5.6% for net sales and 28.9% for ordinary income. In the forecasts, the Company records those items that are viable in the financial results, and because this forecast did not include the new business, the above values are conservative. As of FY3/19, it has 520 registered construction companies, but the top ranked 20% companies contribute 80% of net sales, and those ranked from 100 down have only 1 building per year. Currently, sales growth is expected from raising the ratio of the SE-structure method to the total number of registered companies, and also by doubling the number of buildings per company.



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

Business Outlook

The Company is tackling the following issues in FY3/20; (1) as part of its effort to disseminate structural calculations, it has announced the Home Building Structural Calculations Navi, as easy-to understand structural calculations system, and it is developing a framework to understand the earthquake-resistant performance at the time a home is newly constructed and an earthquake-resistant simulation presentation system; (2) to expand the supply area and capacity, it is starting supplying Hokkaido and Okinawa and increasing the number of collaborating plants; (3) to improve the name awareness of Thick wooden-frame house, it is increasing the number of Thick wooden-frame house Premium Partners and developing an online portal site; and (4) for the development and management of a structural calculations system for large-scale wooden structures, it is developing the calculation system introduced for curved materials and CLT (Cross Laminated Timber; thick laminated panels that are laminated-bonded so that the fiber direction intersects at a right angle to each layer) for large-scale structures.

Improving the name recognition of the SE-structure method

2. Growth strategy

The company has devised a strategy that attempts to develop the earthquake-resistant design business as a venue of stable and continuous growth. Therefore, it has been trying to constantly expand the franchise network. As a strategy with an eye to the future, it will be essential to improve name recognition toward the dissemination of structural calculations. To this end, Company President Takusari is serving as the representative director of the Earthquake Resistance Housing 100% Implementation Committee. Also, the total number of views of the NCN Channel, the video site on the Company's website, is 3.05 million times, and the number of views of the Structural Channel, which shows structural calculations and experiments, is 33,000 times. So the number of accesses is steadily growing, including by customers who are actually thinking about rebuilding. It is also conducting promotional measures targeting specific media, and in FY3/20, in Miik JAPON, which is the Japanese version of Miik, the fashion and interior-design magazine for families launched in Paris France, had feature articles on designer houses and residences built using the SE-structure method. The luxury interior design magazine Modern Living which publishes ML WELCOME also features articles on the SE-structure method twice a year. Alongside these measures, according to a Company survey, currently the name awareness of the SE-structure method among customers who are considering purchasing a home has grown to nearly 40%.

(1) There are more than 1.26mn wealthy households with assets worth more than ¥0.1bn

The Company's main market is centered on the high-price band for the construction of good housing in terms of the forecast of demand from the wealthy households, according to the results of a survey on the wealthy households in Japan announced by a private think tank in December 2018, there were 1,183,000 wealthy households with net financial assets worth from ¥0.1bn to ¥0.5bn and 84,000 extremely wealthy households with net financial assets worth more than ¥0.5bn in 2017. So the total number of wealthy and extremely wealthy households was 1,267,000 households. On forecasting demand based on the results of this survey, in the event of rebuilding once every 30 years, 42,233 homes of one thirtieth of these homes would be rebuilt, and the Company is targeting this market and aiming to expand its earnings base by disseminating the SE-structure method through its franchise network of registered construction companies.

Business Outlook

On the other hand, for the low-price band, the Company can reduce costs with a standard type. MUJI HOUSE is targeting this field, while these buildings also incorporate the SE-structure method and the thermal efficiency calculation service. Also, the Company is collaborating on product planning with R.C. Core Co., Ltd. <7837>, which conducts a business in this field under the BESS housing brand, and the SE-structure method is being adopted for these products.

Moreover, the Company is involved in the regeneration of housing complexes through a collaboration with a house manufacturer that is progressing measures toward the distribution of pre-owned homes (full renovations using the SE-structure method), which is a field that is expected to grow in the future.

(2) The expansion of the large-scale wooden buildings (non-residential) field

In the large-scale wooden buildings (non-residential) field, the Company can use expertise in structural calculations that the Group has cultivated up until now, thus this is considered to be a field in which it can expand its business. It plans to conduct R&D, such as into design systems that are compliant with large-scale wooden buildings, to strengthen the production and supply system for structure-processed products and other products, and to focus on developing its business for the non-residential field, including collective housing, hospitals and kindergartens.

(3) Will announce the medium-term management plan in November 2019

The Company plans to announce its medium-term management plan in November 2019. It is targeting stable growth and profit growth has come into view, and in this situation, it seems highly likely that it will announce a growth strategy.

(4) Overseas business development: registered the first overseas building company in South Korea

In order to expand the overseas wooden-construction, earthquake-resistant design business in South Korea, HAEGA PASSIVE CONSTRUCTION INC. of South Korea newly became a registered construction company for the SE-structure method, an earthquake-resistant construction method since June 2019.

In December 2017, the Ministry of Land, Infrastructure and Transport amended the earthquake-resistance legal code "to make earthquake-resistant designs obligatory for all residential housing with 2 floors or more and with a total floor area of 200m² or more" in South Korea. Wooden buildings are no exception to this, and when applying for a construction permit, it has become obligatory to submit a structural safety confirmation report and a structural calculation report necessary to confirm the earthquake-resistant design. Since this law was amended, the Company has been receiving an increasing number of inquiries in South Korea about the SE-structure method from builders and designers who want to build wooden-construction non-residential buildings. The number of new wooden housing starts in South Korea was 11,689 buildings (according to the National Statistical Office of South Korea in 2017), and construction by 2x4 is the mainstream method. But interest is increasing among builders and building owners in the Japanese wooden-framework construction method, which is highly resistant to earthquakes. Also, in the last few years in South Korea, buildings have been damaged due to earthquakes, such as in the Pohang Earthquake (M5.4) in November 2017, so awareness is rising of the need to improve the earthquake resistance of residential housing. So in the context of the amended law and the rising interest in earthquake countermeasures, the adoption of the Company's SE-structure method, an earthquake-resistant construction method, is expected to grow in South Korea. Going forward, the focus will be on overseas business expansion in the Asia region as a whole, in South Korea and other countries.

Business Outlook

The joint parts in the SE-structure method with superior earthquake-resistant

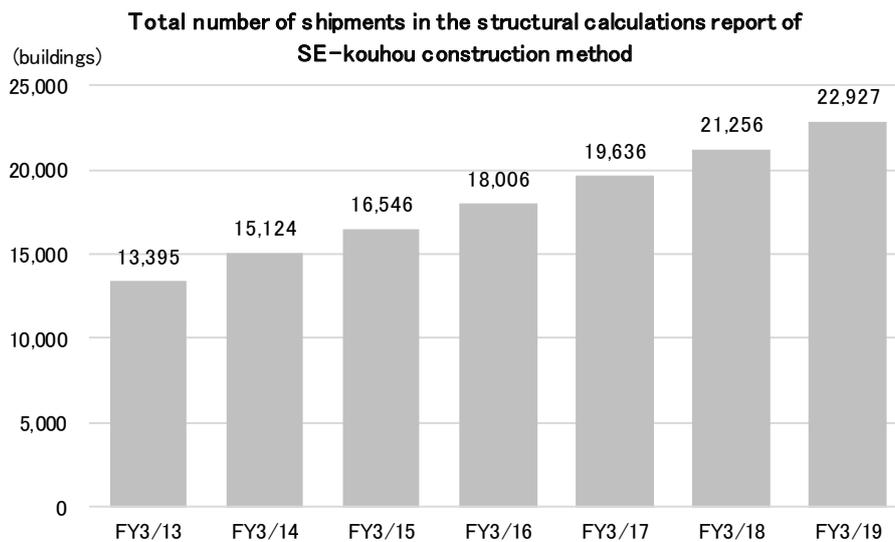


Source: Reprinted from a Company press release

The Japanese government is promoting the use of wood for building construction

3. Business environment

In terms of the business environment, the Company is focusing on the home-ownership area from among the home ownership, condominiums, and rental-housing areas in new housing starts which becomes an indicator. Since 2014, home ownership has remained below 300,000 homes and has continued to trend in the range of 280,000 to 290,000 homes. On the other hand, the number of structural calculation shipments by the Company in FY3/19 was for 1,671 buildings, so this remains an area with considerable room for growth. Since it started to provide the SE-structure method, the Company has a track record of providing it for a total of more than 22,000 buildings (as of March 2019), which will become a database for the distribution of pre-owned homes in the future. Therefore, because it has a franchise network of more than 520 building contractors who can conduct maintenance on pre-owned homes, this network will be the key to the pre-owned home distribution (full renovation by the SE-structure method) field.



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

Business Outlook

Also, in the large-scale wooden buildings (non-residential) field, according to a report on Japan's public buildings in FY17 announced by the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Land, Infrastructure and Transport, it was announced that the percentage of wooden buildings of low-rise buildings (less than 3 floors) was 63.0%, the first time it had exceeded 60%. This was the highest percentage since FY12, when the movement toward wooden-construction buildings became fully fledged. The Japanese government has set as its basic policy that the low-rise buildings it will establish will be constructed of wood in principle, so non-residential is also a field that is expected to grow. In the trend in the construction planning amount for public buildings, the market scale has grown from more than ¥500bn in FY09 to more than ¥800bn in FY17. The percentage of structural materials is said to be 10%, and profits would be about ¥0.4bn based on this scale of ¥80bn, so large-scale wooden buildings is also a market with plenty of room for growth. By expanding its franchise network, the Company is aiming to acquire market share of 3%, and if the market expands to ¥1tn, the company can make sales of more than ¥3bn.

Contributing to society by “making Japanese homes 100% earthquake resistant homes”

4. Aiming for 100% earthquake-resistant homes

(1) Thick wooden-frame house, a high value-added brand for building contractors

Thick wooden-frame house is a housing brand that uses the SE-structure method. These homes have two merits: the ability to request community-based building contractors and housing companies which are fully familiar with the climate and environment of the local areas to design and construct, and that third parties carry out the site inspections, complete guarantees with performance, quality and assurance certified as long-life quality housing. Of the more than 520 companies that are SE-structure registration contractors, 65 companies have been selected as particularly excellent companies and the Company allows these other companies to use “thick wooden-frame house” as a generic name. The Company conducts training, as well as strict screening for these contractors.

The Thick wooden-frame house



Source: Reprinted from the Company's website

Business Outlook

(2) General Incorporated Association of the Earthquake Resistance Housing 100% Implementation Committee

The Company put together a predecessor voluntary organization for earthquake-resistant housing in September 2014. It continued the idea with the Earthquake Resistance Housing 100% Implementation Committee established on September 1, 2017. In order to continue to build “homes in which people do not die during earthquakes,” this committee deals with barriers related to the Building Standards Law Article 6.4 Special Cases. Through scientific methods, empirical data, and other techniques, it aims to verify each of the current earthquake-resistant standards, and provides policy recommendations toward the enactment of new standards.

Making Japanese homes 100% earthquake resistant



Source: Reprinted from the Company's website

(3) Welcoming Mr. Hirofumi Uchiyama as an outside director

The Company has welcomed Mr. Hirofumi Uchiyama as an outside director. Mr. Uchiyama has a wealth of knowledge and experience in the renovation industry as the Chairman of the Renovation Council, and it was determined that he is qualified to monitor management from an objective perspective and independently toward the development of the Company's business. Mr. Uchiyama has a pioneering presence in the renovation industry, and his appointment enabled the Company to move into the wooden-construction pre-owned homes distribution (full renovations using the SE-structure method) field, which it has set as its growth strategy.

History

December 1996	In order to not repeat the tragedy in 1995 of the Great Hanshin-Awaji Earthquake, New Constructor's Network Co., Ltd., was established in Minokamo City, Gifu Prefecture, as a joint venture between Seven Industries Co., Ltd., <7896> and Nissho Iwai Corporation (currently, Sojitz Corporation) to disseminate safe and secure wooden structures in Japan and to build a mechanism to supply homes with asset value
October 1997	Acquired the Minister of Construction certification in the Building Standards Law Article 38 for the SE (Safety Engineering) Construction Method Wood Frame System Started sales of the SE-structure method
November 1998	Held the SE-structure Method Housing Exhibition (SELL HOUSE Exhibition) by seven architects
September 1999	Started the SE Housing Performance Guarantee System ahead of the Defects Guarantee System Opened the Osaka branch office
May 2000	Acquired the Minister of Construction certification in the Buildings Standards Law Article 38 for the – SE-structure Method Wood Frame System (expanded the eaves height limit and an alternative-burning design)
October 2001	Acquired the Specified Constructor Business License (the Minister of Land, Infrastructure and Transport License No. 023620)
May 2002	Acquired the Minister of Land, Infrastructure and Transport certification in the Buildings Standards Law Article 68.26 for the SE-structure Method-dedicated structural calculation program
December 2003	Started providing the Thick wooden-frame house housing brand that uses the SE-structure method
January 2004	Conducted a capital participation and made an affiliate of MUJI net Co., Ltd., (currently MUJI HOUSE Co., Ltd., an equity method affiliate), a joint-venture subsidiary with Ryohin Keikaku Co., Ltd.
October 2005	Acquired the Minister of Land, Infrastructure and Transport certification for the Buildings Standards Law Article 68.26 for the SE-structure Method Wood Frame system (split-level home)
September 2006	Acquired the Forestry Certified PEFC-CoC certification Stated the design office franchise network business (NDN business department)

We encourage readers to review our complete legal statement on “Disclaimer” page.

New Constructor's Network Co., Ltd.

7057 Tokyo Stock Exchange JASDAQ

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<https://www.ncn-se.co.jp/ir/>

Business Outlook

June 2008	The system that includes the SE-structure method was adopted by the Ministry of Land, Infrastructure and Transport for the Ultra-long-term Housing Leading Model Project Started the supply of feather-pattern materials and unit rebar in the SE-structure method Started sales of Walk in Structure, a SE-structure method-dedicated design CAD
April 2009	Following the enactment of the Act to Promote Ultra-long-term Excellent Housing, established the Ultra-long-term Excellent Housing Support Office (currently, the Ultra-long-term Excellent Housing Support Section, New Business Department) The residential housing supply system using the SE-structure method was certified as a Ministry of Land, Infrastructure and Transport, Long-term Excellent Housing Leading Business and adopted as an auxiliary business Started the use of domestically produced timber in the SE-structure method
October 2010	The system that includes the SE-structure method was selected by the Ministry of Land, Infrastructure and Transport as the FY2010 Ultra-long-term Excellent Housing Leading Business Started the environmental design service (currently the primary energy consumption volume calculation service)
March 2012	Established SE Home Loan Services Co., Ltd., (currently a consolidated subsidiary) to conduct operations including loan agency operations and the brokerage of financial instruments The SE-structure Method Wood Frame system received a structural assessment by the Building Center of Japan Improved the performance of the SE-structure method for long-term use (introduced lag screw bolts and improved the rigid frame)
March 2013	Spun-off the design office franchise network business as NDN Co., Ltd.
June 2015	Established MAKE HOUSE Co., Ltd., (currently a consolidated subsidiary) to develop and deploy BIM solutions for the housing industry
July 2016	Acquired the resilience certification
February 2017	Absorption merger of NDN Co., Ltd.
February 2018	Relocated site of the Head Office to Minato Ward, Tokyo
March 2018	Acquired the Housing Lots and Buildings Transactions Business License (Governor of Tokyo License (01) No. 101790)
March 2019	Listed on the Tokyo Stock Exchange JASDAQ market

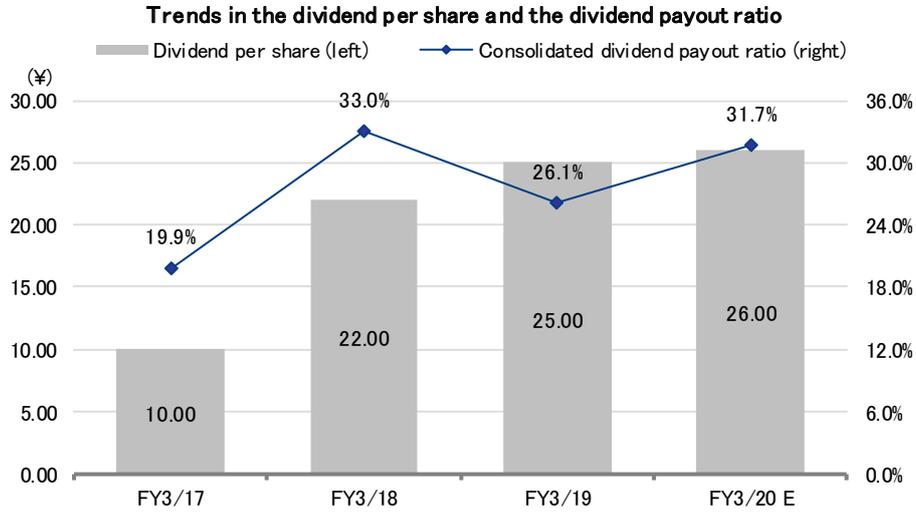
Source: Prepared by FISCO from the Company's securities report

Shareholder return policy

Stably pays dividends targeting an annual dividend payout ratio of 30% on a consolidated basis and 40% on a stand-alone basis

The Company considers returning profits to shareholders to be one of its most important management issues. To decide the payout ratio, the Company takes internal reserves into account to implement the business plan and expand the business scale (including for funds for the R&D required for growth and development and for capital investment). Its basic policy is to continuously and stably pay dividends targeting an annual dividend payout ratio of 30% on a consolidated basis and 40% on a stand-alone basis while taking into consideration the profit level and the cash flow conditions in each fiscal period, and also based on the consolidated results. The Company expects to continue to increase the dividend in FY3/20 as well and plans to pay ¥26 per share (a consolidated dividend payout ratio of 31.7%).

Shareholder return policy



Note: Conducted a 1-for-100 share split of ordinary shares on December 4, 2018
 Source: Prepared by FISCO from the Company's financial results and securities report



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