COMPANY RESEARCH AND ANALYSIS REPORT

Prospect Co., Ltd.

3528

Tokyo Stock Exchange Second Section

14-Jun.-2019

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Summary

A conglomerate that conducts a wide range of businesses centered on real estate and including construction, investment advisory, and renewable energy-related businesses

The origins of Prospect Co., Ltd. <3528> (hereafter, also "the Company") are found in Inami Kigyo Co., Ltd., which conducted a textile business. But in 1994, the Company withdrew from the textile business and changed its main business to a real estate business (primarily sales of condominiums). After that, the Company was temporarily a member of the DAIKYO <8840> Group, which is a major condominium developer. But it left the Group and started independent management in 2007. Mr. Curtis Freeze, the owner and president of the former Prospect Co., Ltd., which had invested in the Company as a fund, was appointed as the representative director and president in 2010. Since then, the Company has used M&A to expand its business to incorporate a public works construction business and custom-made homes business, and currently it is engaged in a wide range of businesses, including a real estate development business (condominium sales, land and buildings), an asset management business, and a renewable energy business, including solar power generation.

(Mr. Curtis Freeze resigned from his post of representative director on December 13, 2018, to take responsibility for the confusion caused by the delay in submitting the Company's earnings report for the second quarter (the first half) of the fiscal year ending March 31, 2019. Furthermore, he plans to resign from his post of director on June 27, 2019, in conjunction with the Company's transition to a company with an audit and supervisory committee from FY3/20.)

1. FY3/19 results

Looking at the Company's FY3/19 consolidated results, net sales were ¥4,937mn (down 57.8% year on year (YoY)), the operating loss was ¥8,041mn (compared to a loss of ¥1,543mn in the previous fiscal year), and the ordinary loss was ¥8,167mn (compared to a loss of ¥1,098mn in the previous fiscal year). The net loss attributable to owners of the parent was ¥9,833mn (compared to profit of ¥1,483mn in the previous fiscal year). The most significant reason for the operating loss was the recording of a large valuation loss by The Prospect Japan Fund Limited ("TPJF," which on May 15, 2019, the Company resolved to dissolve and liquidate) due to decrease in market value of the fund's holdings, and this valuation loss was recorded as negative net sales and an operating loss. Elsewhere, the Company posted a large net loss for the period due to the recording of various valuation losses and impairment losses. However, most of this comprised valuation losses, and were not accompanied by an outflow of cash. Therefore, the impact on cash in hand was minimal. All other business segments performed solidly, largely in line with forecasts. In light of the results, there was no dividend for period.

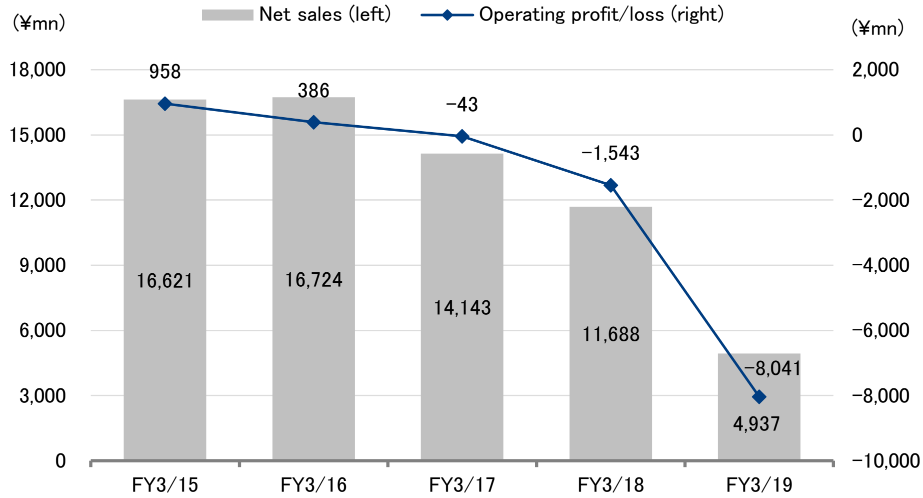
2. Outlook for FY3/20: No Company forecasts, planning to resume an annual dividend of ¥1

The Company noted that it is engaged in the biomass related business in Russia, and also that its Asset Management and Overseas Business Development are important segments that tend to be significantly affected by changes in economic conditions and the market environment, both domestically and abroad, and that it is extremely difficult to properly forecast ordinary business results. Based on this, the Company has adopted a policy of not disclosing results forecasts. Accordingly, the Company has not disclosed consolidated results forecasts for FY3/20, but plans to resume a dividend in FY3/20. Under this plan, the Company will establish mandatory targets for the payment of an annual dividend of ¥1 per share, and plans to transfer funds from the capital reserve to retained earnings, along with other moves, in order to pay this dividend.

Key Points

- A conglomerate that conducts a wide range of businesses centered on real estate and including construction, investment advisory, and renewable energy-related businesses
- It is actively conducting M&A while developing the renewable energy-related business as the growth driver

Trends in net sales and operating profit/loss



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

Company profile

Although it was originally a textile company, today it has become a conglomerate conducting a wide range of businesses, mainly real estate-related

The Company has a long history and its predecessor, Inami Kigyo Co. Ltd., was founded in Toyama Prefecture in 1937. It subsequently changed its corporate name to Carolina Co., Ltd., in 1961, and was listed on the Tokyo Stock Exchange Second Section in 1962. Then on entering the 1990s, it withdrew from the textile business and shifted to its mainstay businesses of condominium sales, and at the same time it joined the DAIKYO Group, which is a major condominium developer.

After that, in 2007 it left the DAIKYO Group and started independent management. In 2010, Mr. Curtis Freeze, who was the owner and president of the former Prospect, which had invested in the Company as a fund, was appointed as the representative director, president and fund manager. In 2013, it made a wholly owned subsidiary of former Prospect through an exchange of shares. In 2014, it merged with this former company through an absorption merger, and at the same time, it changed its corporate name to the current name of Prospect Co., Ltd. During this period, it diversified its business through conducting M&As to make consolidated subsidiaries of Sasaki House Co., Ltd., and Kidoh Construction Co., Ltd., and it then launched a solar business in 2015. It also made a subsidiary of TPJF from an exchange of shares, in July 2017. (The Company's Board of Directors passed a resolution on May 15, 2019, to dissolve and liquidate TPJF. (All shares in Kidoh Construction Co., Ltd. was sold in March 2019)).

History

Year	Major event
1937	Inami Kigyo Co. Ltd., was established in Toyama Prefecture
1961	Changed corporate name to Carolina Co., Ltd.
1962	Listed on the Second Section of Tokyo Stock Exchange
1990	Changed how the name was written in Japanese
1991	Entered an alliance with the DAIKYO <8840> Group
1993	Began sales of the Morris condominium series (Series No.1 Morris Kawasaki)
1994	Withdrew from the textiles business
1994	Moved head office from Toyama Prefecture to Shibuya Ward, Tokyo
2000	Moved head office to its current location (1-30-8 Sendagaya, Shibuya Ward, Tokyo)
2001	Changed corporate name to Gro-Bels Co., Ltd.
2007	Left the DAIKYO Group and began independent management
2010	Mr. Curtis Freeze was appointed representative director and president
2012	Acquired all the shares and made a consolidated subsidiary of Sasaki House Co., Ltd.
2013	Acquired all the shares and made a consolidated subsidiary of (former) Prospect Co., Ltd.
2013	Entered into the overseas real estate-related business
2014	Acquired all the shares and made a consolidated subsidiary of Kidoh Construction Co., Ltd.
2014	Conducted an absorption merger with a subsidiary, former Prospect, and changed its corporate name to Prospect Co., Ltd.
2015	Launched the solar power generation business (the first project: Asago Tachiwaki Solar Power Plant)
2017	Acquired all the shares and made a subsidiary of The Prospect Japan Fund Ltd. though an exchange of shares
2018	Mr. Masato Tabata was appointed representative director and president
2019	Sold all shares of Kidoh Construction Co., Ltd.

Source: Prepared by FISCO from the Company's website

Business overview

The Company is developing a wide range of businesses centered on real estate and including housing, construction, and renewable energy-related businesses

1. Main business activities

The Company discloses information on the following business segments; real estate development business, asset management business, public works construction business, renewable energy business, and others. The real estate development business is further broken down into condominium sales, land and buildings, and custom-made homes.

(1) Condominium sales (% of total net sales in FY3/19: 77.5%)

The same as general condominium developers, in this business the Company purchases land and constructs and sells condominium units. They are sold under the GRO-BEL brand, which is derived from the former company name. Net sales and segment profit fluctuate depending on the status of site purchases and other factors. It sold (delivered) 96 units in FY3/19.

(2) Land and buildings

This business includes the sales of residential land, detached housing, and buildings, but it mainly involves the sales of land and buildings that occurs incidental to its sales of condominiums. For the land and buildings (including unfinished buildings) that are intended to be sold for condominiums, it mainly sells those properties in which it expects to achieve profits (profitability) above the target, and it does not purchase and sell land and buildings for which a sale (profits) was expected from the beginning. Consequently, net sales for FY3/19 have not been recorded.

(3) Custom-made homes (% of total net sales in FY3/19: 42.5%)

The main business area is Yamagata Prefecture, primarily for the construction outsourcing work and renovation work of detached housing carried out by Sasaki House, which it made a subsidiary through an M&A. Sasaki House has a history of more than 50 years in the residential housing business, but because it did not have a successor to take over its business, it sold all its shares to the Company and became its subsidiary. In FY3/19, it delivered 58 buildings.

(4) Asset management business (% of total net sales in FY3/19: -147.3%)

This is an investment advisory business that conducts the fund management (mainly for Japanese equities) that was previously conducted by the former Prospect. However, in July 2017, the Company acquired 100% of the listed shares in TPJF, which was one of the management funds, in a share-for-share transaction, so currently the investor in TPJF is the Company itself. Net sales and profit fluctuate depending on the end-of-period valuations of stocks held, and in some cases negative values end up being posted. In FY3/19, net sales of negative ¥7,273mn were recorded.

(5) Public works construction business (% of total net sales in FY3/19: 126.1%)

The business includes the microtunneling projects and the pre-stressed concrete (PC) construction works carried out by subsidiary Kidoh Construction. Because the Company sold all of its shares of Kidoh Construction in March 2019, the public works construction business will be abolished as a segment from FY3/20.

(6) Renewable energy business (% of total net sales in FY3/19: 11.5%)

The business model entails developing solar power generation projects, and selling the power generated to electric power companies. On the points of generating profits (cash flows) from acquiring rights and conducting investment, or from selling equipment, it can be said that the approach in this business is the same as for a rental building business. As of the end of March 2019, it had seven operational plants (the ratio of power generated according to the Company's share, 20.5MW), and currently two plants are under development.

(7) Others (% of total net sales in FY3/19: 0.9%)

This business mainly entails leasing the condominiums owned by the Company.

2. Business features

(1) The "investment" approach

As mentioned previously, at first glance the Company seems to be developing its businesses in different fields. But in fact, fundamentally they are all based on the same approach, of acquiring (purchasing) land, rights, projects, and so on, and then investing (capital) in them, and collecting the profits at a later date. This point can be said to be a feature of the Company's business development.

(2) Business diversification (the portfolio approach)

On the other hand, the Company conducts various businesses, such as for custom-made homes and construction, via the subsidiaries it has acquired through M&A. The reason why it conducted these M&A is that in the custom-made homes and public works construction businesses, it can recover its investment in a relatively short period of time compared to in its other businesses such as condominium sales, and they can be said to be suitable for diversifying business risk and the time spans for recouping its financial investment. In other words, currently the Company conducts its various businesses based on a portfolio approach, rather than simply diversifying on a line extending from its existing businesses or into related fields. This can also be said to be one of its features.

Results trends

In FY3/19, the recording of a valuation loss at a subsidiary produced a large operating loss, but there was no cash outflow

● FY3/19 results

(1) Profit and loss conditions

Looking at the FY3/19 consolidated results, net sales were ¥4,937mn (down 57.8% year on year (YoY)), the operating loss was ¥8,041mn (compared to a loss of ¥1,543mn in the same period of the previous fiscal year), and the ordinary loss was ¥8,168mn (compared to a loss of ¥1,098mn in the same period of the previous fiscal year). The net loss attributable to owners of the parent was ¥9,833mn (compared to profit of ¥1,483mn in the same period of the previous fiscal year).

The most significant reason for the substantial operating loss was the recording of a large valuation loss (comparison of December 31, 2017 and December 31, 2018) by TPJF, which became a subsidiary in July 2017, due to a drop in stock prices, and these valuation losses were recorded as negative net sales and an operating loss in the consolidated performance results. In addition to this, the Company posted a number of valuation losses, impairment losses, and an increase in provision of allowance for doubtful accounts in order to account for various latent losses, resulting in an even larger net loss for the fiscal year. However, these losses were not accompanied by an outflow of cash, but rather were valuation losses (non-cash), so the impact on cash in hand was minimal. Also, all other business segments besides asset management performed largely in line with forecasts.

FY3/19 results

(¥mn, %)

	FY3/18		FY3/19		
	Amount	Ratio to sales	Amount	Ratio to sales	YoY
Net sales	11,688	100.0	4,937	100.0	-57.8
Gross profit on sales	2,343	20.0	-5,352	-	-
SG&A expenses	3,887	33.3	2,689	54.5	-30.8
Operation loss	-1,543	-	-8,041	-	-
Ordinary loss	-1,098	-	-8,167	-	-
Net profit (loss) attributable to owners of the parent	1,483	12.7	-9,833	-	-

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

(2) Conditions by segment

FY3/19 results by segment

(¥mn, %)

	FY3/18		FY3/19			
	Amount	Ratio to sales	Amount	Ratio to sales	Change	% change
Net sales	11,688	100.0%	4,937	100.0%	-6,751	-57.8%
Condominium sales	4,926	42.1%	3,829	77.5%	-1,097	-22.3%
Land and buildings	-	-	-	-	-	-
Custom-made homes	1,482	12.7%	2,098	42.5%	615	41.5%
Asset management business	158	1.4%	-7,273	-147.3%	-7,431	-
Public works construction business	4,615	39.4%	6,226	126.1%	1,610	24.0%
Renewable energy business	533	4.6%	569	11.5%	35	6.7%
Others	50	0.4%	45	0.9%	-4	20.9%
Operating loss	-1,543	-	-8,041	-	-6,497	-
Condominium sales	602	-	321	-	-281	-46.7%
Land and buildings	-	-	-	-	-	-
Custom-made homes	12	-	69	-	57	476.4%
Asset management business	-122	-	-7,543	-	-7,421	-
Public works construction business	261	-	327	-	66	25.6%
Renewable energy business	155	-	65	-	-90	-58.2%
Others	20	-	16	-	-3	-18.7%
(Company-wide expenses, etc.)	-2,473	-	-1,298	-	1,175	-

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

a) Condominium sales
In FY3/19, the Company completed 111 units (120 units in FY3/18), executed new contracts for 103 units (115 units in FY3/18) with a value of ¥4,271 million (¥4,379mn in FY3/18), and delivered 96 units (137 units in FY3/18). As a result, net sales were ¥3,829mn and segment profit was ¥321mn.

b) Land and buildings
In FY3/19, contract results were for one condominium (37 units in total, total exclusive floor space of 1,508.01m2) with a value of ¥1,950mn, but no sales results were recorded. (There were no contract results or sales results in the previous fiscal year.)

c) Custom-made homes

In this business, the Company performs construction of detached homes, as well as related renovation work and other activities, in its main business area of Yamagata Prefecture. In FY3/19, new contracts were made for 36 buildings worth ¥2,104mn (compared to 58 buildings worth ¥1,659mn in the previous fiscal year), and 58 buildings were delivered (compared to 40 in FY3/18). The Company recorded net sales of ¥2,098mn and segment profit of ¥69mn.

d) Asset management business

In this business, the Company manages investments in Japanese shares and conducts related research activities, and undertakes real estate investment advisory and proxy services and real estate investments. In FY3/19, the Company recorded a valuation loss on its securities due to a drop in stock prices. As a result, net sales were negative ¥7,273mn and the segment loss was ¥7,543mn (net sales of ¥158mn and segment loss of ¥122mn in FY3/18). However, this was due to valuation loss, and the loss did not involve an outflow of cash.

e) Public works construction business

In this business, the Company primarily conducts pipe-jacking projects and pre-stressed concrete (PC) construction work. In FY3/19, the Company recorded net sales of ¥6,226mn and segment profit of ¥327mn. Because the Company sold all of its shares of Kidoh Construction Co., Ltd., which carries out this business in March 2019, the public works construction business will be abolished as a segment from FY3/20. The Company posted ¥49mn in extraordinary profits in conjunction with the sale of these shares.

f) Renewable energy business

In this business, in which the Company sells the power generated by the solar power generation facilities it manages to electric power companies, it recorded net sales of ¥569mn and segment profit of ¥65mn.

As of September 30, 2019, the Company had seven projects in operation (Asago Project, Katori Project, Ushiku Project, Kumamoto Yatsushiro Project, Rikuzentakata Project, Sendai Project, and Utsunomiya Tokujiro Project). As a result, the Company's share of power generation at these projects was 20.5 MW. Another two projects (Sanbu Minami Project and Narita Kouzaki Project) are newly under construction during FY3/20, and are scheduled to successively start operations after they are completed.

g) Others

This business mainly involves the rental to general tenants of condominium and other properties owned by the Company. The Company recorded net sales of ¥45mn and segment profit of ¥16mn.

(3) Valuation losses and impairment losses, etc.

A major loss was posted for FY3/19 due to various valuation losses and other factors, with the primary losses as follows. It is important to note that the majority of these losses were non-cash-related.

a) Valuation loss on Japanese stocks held by subsidiary TPJF (valuations as of December 31, 2018, due to TPJF's fiscal year-end): Approximately ¥7,200mn, posted as negative net sales (non-cash-related)
b) Valuation loss on stock acquisition rights issued by the Company and owned by a subsidiary, in conjunction with the decline in the price of the Company's stock: Approximately ¥900mn, extraordinary loss (non-cash related)
c) Accumulation of allowance for doubtful accounts on loans to overseas projects: The Company had been making allowances of roughly 50% through the third quarter ended December 31, 2018, but made allowances of 100% for the full fiscal year. The Company posted approximately ¥660mn as non-operating expenses (non-cash-related).

d) Complete write-off of positive goodwill accumulated in M&A overseas: Approximately ¥700mn recorded as extraordinary loss (non-cash-related)

(4) Financial position

Although a significant loss has been booked and the financial position is slightly worse off, it is not at a level of concern. At the end of FY3/19, total assets were ¥30,780 million, down ¥9,760mn from the end of the previous fiscal year. Current assets were ¥16,784mn, down ¥10,868mn. This decrease was mainly due to a decline of ¥5,631mn in cash and deposits, along with a decline of ¥3,659mn in securities. Meanwhile, non-current assets were ¥13,996mn, an increase of ¥1,107mn. The main components of this change were an increase in property, plant and equipment of ¥2,201mn, decreases in intangible assets of ¥695mn, and in investments and other assets of ¥398mn.

Total liabilities were ¥15,030mn, down ¥292mn from the end of the previous fiscal year. The main factors included decreases in notes and accounts payable of ¥966mn, in accrued construction payment of ¥742mn, in short-term loans payable, etc. of ¥458mn and an increase in long-term loans payable of ¥3,259mn. Net assets were ¥15,750mn, down ¥9,468mn. This decrease was mainly due to a decline in retained earnings due to the recording of a net loss attributable to owners of the parent of ¥7,296mn (a YoY decrease of ¥9,833mn).

Balance sheets

(¥mn)

	End of FY3/18	End of FY3/19	Change
Cash and deposits	10,681	5,049	-5,631
Notes and accounts receivable - trade	481	130	-350
Securities	10,563	6,904	-3,659
Real estate for sale	611	1,263	652
Real estate for sale in process	2,580	2,409	-171
Real estate for development	640	442	-198
Current assets	27,653	16,784	-10,868
Property, plant and equipment	7,675	9,876	2,201
Intangible assets	881	186	-695
Goodwill	831	4	-827
Investments and other assets	4,331	3,932	-398
Investments in capital	2,669	1,368	-1,301
Long-term loans receivable	946	2,365	1,418
Non-current assets	12,888	13,996	1,107
Assets	40,541	30,780	-9,760
Notes and accounts payable - trade	1,024	57	-966
Accounts payable for construction contracts	1,038	295	-742
Short-term loans payable, etc.	2,628	2,169	-458
Current liabilities	7,314	3,997	-3,317
Long-term loans payable, etc.	7,155	10,414	3,259
Non-current liabilities	8,008	11,033	3,024
Liabilities	15,323	15,030	-292
Net assets	25,218	15,750	-9,468

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

(5) Cash flow conditions

In FY3/19, net cash used in operating activities was ¥4,523mn. The main factors behind outflow were the recording of a loss before income taxes of ¥9,604mn, interest income and dividend income of ¥470mn, and a ¥413mn increase in accounts receivable. Meanwhile, the main factors increasing cash were ¥336mn in depreciation expenses, ¥729mn in loss on impairment, ¥895mn in valuation loss on stock acquisition rights of the Company, a ¥661mn in decrease in inventory assets, and a ¥3,360mn decrease in operating investment securities.

Net cash used in investing activities was ¥2,634mn. The main uses of cash were the purchase of property, plant and equipment of ¥4,390mn, while the main source of cash was ¥764mn in proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation, and ¥1,251mn in income from recovery of investments.

Net cash provided by financing activities was ¥1,624mn. The main cash inflow was an increase in long- and short-term loans payable of ¥2,871mn and proceeds from the issuance of shares due to the exercise of stock acquisition rights of ¥546mn, while the main cash outflow was the payment of dividends of ¥1,723mn. As a result, during FY3/19, cash and cash equivalents decreased ¥5,601mn, and the balance of cash and cash equivalents at the end of FY3/19 was ¥5,049mn.

Cash flow statements

(¥mn)

	FY3/18	FY3/19
Cash flows from operating activities	1,864	-4,523
Net profit (loss) before income taxes, etc. (– indicates loss)	2,020	-9,604
Depreciation	311	336
Loss on impairment	-	729
Gain on bargain purchase	-2,528	-
Profit (loss) on investment in silent partnership (– indicates profit)	53	324
Loss (gain) on operation of investments in capital	-706	-470
Valuation loss on Company stock acquisition rights	-	895
Decrease (increase) in notes and accounts receivable - trade	-130	-413
Decrease (increase) in inventories	460	661
Increase (decrease) in notes and accounts payable - trade	307	39
Decrease (increase) in investment securities for sale	1,605	3,360
Cash flows from investing activities	961	-2,634
Expenditure for the purchase of property, plant and equipment	-3,549	-4,390
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	-	764
Proceeds from recovery of investments	1,092	1,251
Cash flows from financing activities	2,446	1,624
Net increase (decrease) in long- and short-term loans payable	1,206	2,870
Proceeds from the issuance of stock due to the exercise of stock acquisition rights	1,601	546
Cash dividends paid	-505	-1,723
Net increase (decrease) in cash and cash equivalents	5,271	-5,601
Cash and cash equivalents at end of period	10,651	5,049

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

Outlook

Full-year business results for FY3/20 will mostly depend on the general stock price level.

1. FY3/20 forecast

(1) Results forecast: There are no Company forecasts

The Company does not announce business results forecasts for the full fiscal year based on the fact that it engages in a finance-related business (asset management) which is highly susceptible to the impact of fluctuations in economic and market conditions, both in Japan and overseas. However, the main reason for the significant operating loss in FY3/19 was the valuation loss on equities (mainly Japanese equities) held by subsidiary TPJF, so operating performance is greatly impacted by stock price levels at the fiscal year-end. Consequently, earnings on an accounting basis will be impacted by future trends in the stock market.

When assessing the Company's business results, as stated earlier, the Company's businesses are widely dispersed and there are some aspects where earnings can be recorded in a short time and other businesses where retrieval takes time. Moreover, retrievals are not always booked as net sales, sometimes being recorded as non-operating income, or as an extraordinary gain, so the financial statements should probably be evaluated looking at comprehensive profits, including extraordinary income or loss, or cash flows and not just on operating profit and loss or ordinary profit and loss.

(2) Dividend forecast: Expecting dividend to be resumed

As discussed above, the Company put off paying a fiscal year-end dividend because of the large loss posted in FY3/19, thereby resulting in no dividend. However, the Company has stated that wants to pay a dividend of at least ¥1 in FY3/20, and the Company plans to pay this dividend by obtaining approval at the Annual Shareholders Meeting for the necessary movement of capital (transfer from capital surplus to retained earnings).

2. New business development: Entering into the biomass business

Continuing on from its solar business within Japan, the Company has announced that it is entering into the biomass fuel (wood pellets) manufacturing business in Russia as its renewable energy business. It has launched a joint-venture company with Russia's RFP Group (Russia forest products group). Using as the raw material the sawdust and other such materials created within the wood processing plants owned by the RFP Group, it will construct a pellet manufacturing plant at a site adjacent to these wood processing plants, and it intends to export the wood pellets to biomass power generation plants in Japan. Customers are expected to mainly be biomass power generation plants that use feed-in-tariffs (FIT). The Company expects to invest around ¥2.5bn to ¥3bn for the construction of a single plant, and going forward, it is aiming to construct several of these plants within Russia.

As for current progress, in May 2018 the Company started site preparation work for a pellet manufacturing plant in Amursk in the Khabarovsk region of Russia, with plans to begin operating the plant by autumn 2019.

The medium- to long-term growth strategy

Actively conducting M&A while developing the solar business as the growth driver

1. Among the existing businesses, the growth driver is the renewable energy business

As previously explained, the Company conducts various businesses, and while businesses such as the condominium sales, custom-made homes, and construction (microtunneling) businesses each stably generate cash flow, they are not expected to achieve dramatic growth within Japan, and rather, they are cyclical businesses that are affected by economic fluctuations.

Conversely, the solar business using FIT and the biomass power generation business can be expected to generate cash flow over the long term. It is anticipated that the biomass power generation business will grow to replace the solar business and become a major growth field in Japan in the future. Therefore, it would seem that by supplying the pellets that are the fuel used in this field, the Company can be expected to achieve growth for this business the same as or greater than that of its existing businesses.

2. Actively conducting M&A as well

The Company's M&A strategy is one more aspect that is supporting its growth. Previously, it has conducted M&A in the custom-made homes and construction fields. Going forward also, it plans to actively conduct them when it finds a candidate that satisfies its investment standards. It intends to raise the funds for M&A using methods that it deems to be optimal in each case, including from its own funds, borrowing, share exchanges, and issuing new shares.

Shareholder return policy

Expecting dividend to be resumed in FY3/20

The Company pays dividends in order to return profits to shareholders, but it has not formulated a specific basic policy for it. In FY3/18, the Company paid an annual dividend of ¥4 per share, but did not pay a dividend in FY3/19. However, the Company plans to resume dividend payments in FY3/20, albeit a small annual dividend of ¥1 per share.

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