

SPACE VALUE HOLDINGS CO., LTD.

1448

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FISCO Ltd. Analyst

Ikuo Shibata



FISCO Ltd.

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Summary

The holding company of a group centered on NISSEI BUILD KOGYO that has a track record in Systemized Construction and Parking Structure. Is aiming for sustainable growth through returning to the main businesses and creating synergies between businesses

1. Company outline

SPACE VALUE HOLDINGS CO., LTD. <1448> (hereafter, also “the Company”) is the holding company of a group centered on NISSEI BUILD KOGYO CO., LTD., that has a track record of Systemized Construction and Parking Structure. The Group has both construction industry and manufacturing industry functions and provides services from parts production, design, and construction, through to maintenance through an integrated system. Also, through strategic M&A and other methods, it is developing businesses including the General Construction, Parking operation & management, Property Development (land utilization), and Facility Management businesses. Based on its management philosophy of “Our mission is to continue to create ‘the value of spaces’,” it is building a structure for the Group as a whole to create spaces with value. Its main businesses are the Systemized Construction business and the Parking Structure business, and its strengths include that it has plants and sales bases in various regions around the country and that it provides its own products group, and the Group has the leading track record in its industry.

In February 2019, an accounting scandal was discovered in NISSEI BUILD KOGYO, and since then, the Company has worked to reform corporate governance and strengthen the internal structure. Having completed a system design to prevent reoccurrence and commenced its management, going forward, its policy is to steer a course for growth through implementing a strategy with an awareness of maintaining a good balance between attack and defense. In October 2019, the Company renewed its management philosophy and its vision for spaces, which determines the growth areas, and in November 2020, it announced a medium-term management plan. It has positioned “returning to the main businesses” as the key theme and has set the direction of pursuing synergies between the businesses.

2. Summary of FY3/21 1H results

In the FY3/21 1H results, net sales decreased 8.3% compared to the same period in the previous fiscal year (year-on-year (YoY)) to ¥34,109mn and the operating loss was ¥73mn (compared to profit of ¥787mn in the same period in the previous fiscal year). So sales and profits declined and an operating loss was recorded, but these results were within the expected ranges. In FY3/20, the Company worked assiduously to strengthen the internal structure following the occurrence of an accounting scandal in NISSEI BUILD KOGYO. This had an effect and a shortage occurred in the accumulation of outstanding orders at the beginning of FY3/21, so sales declined significantly in the Systemized Construction business and the Parking Structure business. However, it seems that at the present time there are signs that ordering activities are recovering. For profits, operating loss was recorded due to a decline in gross profit alongside the decrease in sales, while SG&A expenses also increased slightly.

Summary

3. FY3/21 forecasts

The Company's FY3/21 results forecasts (announced on October 7, 2020) are for net sales to decrease 6.4% YoY to ¥80,000mn and operating profit to increase 0.7% to ¥2,500mn. Net sales trended at a low level in the 1H, but they are expected to recover in the 2H. However, it is necessary to be aware that this assumes there will be no large-scale restrictions of economic activities due to the coronavirus. For profits, the outlook is that operating profit will be secured for the full fiscal year, including due to the improvement in earnings following the recoveries of orders and net sales, and also cost reductions. For the FY3/21 period-end dividend, the Company plans to pay a dividend per share of ¥15, which is the same as in FY3/20.

4. The medium-term management plan (future direction)

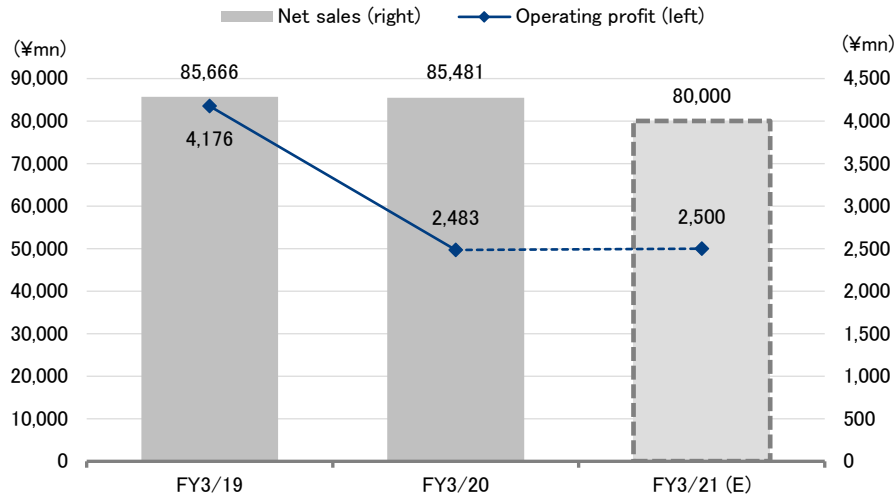
Based on its management philosophy and vision for spaces, the Company has set the image of what it wants to be in 10 years' time as "A company that creates spaces that are useful for people's lives," and it has also formulated a three-year medium-term management plan as the first step toward realizing this image. The features of the plan include the key theme of "returning to the main businesses," and with the construction business (system and prefabricated) as the core business, the plan indicates the direction for the growth of each of the land utilization business, the Parking Structure business, and the General Construction business through creating synergies between these businesses. The numerical targets for the medium-term management plan's final fiscal year (FY3/23) are 1) consolidated ordinary profit of at least ¥4.5bn (also, an ordinary profit margin of at least 5%), 2) ROE of at least 10%, 3) and a dividend payout ratio of 30%. In particular, the strategy is to increase sales in the highly profitable Systemized Construction business and improve the profit margin through acquisitions of Company-led projects by utilizing the Group's proposal capabilities from planning in the land utilization business.

Key Points

- The holding company of a group centered on NISSEI BUILD KOGYO that has a track record in Systemized Construction and Parking Structure. Policies are to strengthen the internal structure following the occurrence of an accounting scandal in the past and to steer a course toward growth
- In the FY3/21 1H, sales and profits declined due to the shortage of orders accumulated in the previous period, but the declines were within the expected ranges
- In FY3/21, profits are forecast to be unchanged YoY, even as sales decline, due to a recovery in the 2H (however, this assumes no large-scale restrictions on economic activities due to the coronavirus)
- In November 2020, announced a new medium-term management plan. With the construction business (system and prefabricated) as the core business, is aiming to create synergies between the land utilization, the Parking Structure, and the General Construction businesses

Summary

Results trends



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

Company outline

With the Systemized Construction business as the core business, is creating “spaces with value” through generating synergies between the land development, Parking Structure, and General Construction businesses

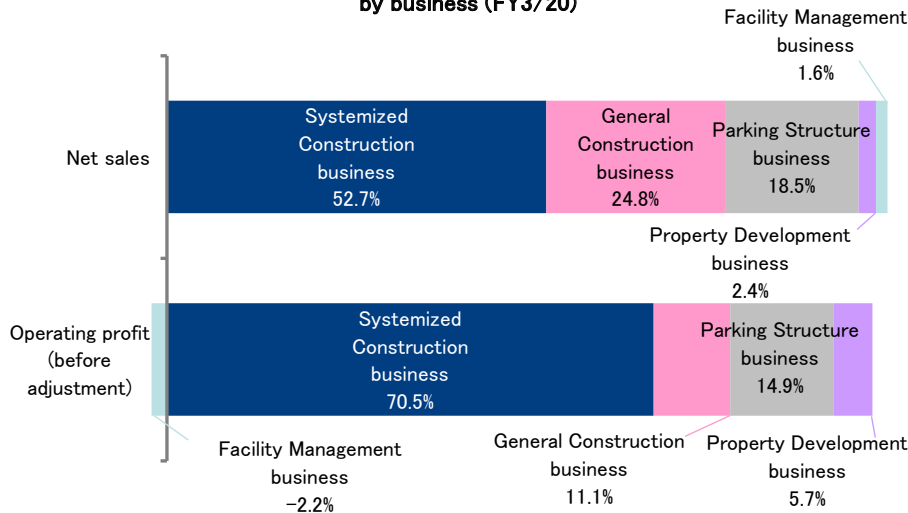
1. Business description

The Company is the holding company of a group centered on NISSEI BUILD KOGYO that has a track record for Systemized Construction and Parking Structure. The Company established the holding company through a stand-alone share transfer by NISSEI BUILD KOGYO and, as of October 1, 2018, manages 12 consolidated subsidiaries (of which 4 are overseas companies), 1 equity method affiliate (overseas), and 1 non-equity method affiliate (overseas).

The five business segments are the Systemized Construction business, the Parking Structure business, the General Construction business, the Property Development business, and the Facility Management business. The core business is the Systemized Construction business that provides the majority of sales, while its contribution to profits is also large. A summary of each business is provided below.

Company outline

Percentages of net sales and operating profit (before adjustment) by business (FY3/20)



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

(1) The Systemized Construction business

The Systemized Construction business is comprised of the Prefab sales business (Systemized Construction design and construction) and the Prefab lease business (rental of temporary buildings) conducted by NISSEI BUILD KOGYO and System House R&C Co., Ltd. (formerly Komatsu House, Co., Ltd.), which was acquired in April 2016. Systemized Construction refers to building construction in which all processes, from design through to construction, and also all the materials used, are systemized, and its features include labor saving, stable costs, and short construction periods compared to conventional construction methods. Among buildings that are less than 2,000m², which constitute the majority of Systemized Construction buildings, the Group targets non-residential buildings, including offices, stores, plants, and warehouses, and it provides services in a unified system, from parts production, design, and construction, through to maintenance. Also, its strengths include it has its own products group and wide range of sales channels, and response capabilities from a network of plants and sales bases in various regions around the country, and the Group has the leading track record in the industry. Conversely, in the Prefab lease business, it provides buildings that are used for various purposes nationwide, including public facilities like temporary school buildings during construction periods and temporary housing in disaster areas, and also replacement spaces when building replacement office and plant buildings, and temporary event facilities. It is a highly profitable, recurring-revenue business and a stable source of earnings.

Company outline

(2) The Parking Structure business

The Parking Structure business consists of the Parking Structure sales business (design and construction of mechanical and drive-in parking lots), the Parking Structure maintenance business (parking lot equipment maintenance and inspections, and renovations), and the Parking operation & management business (metered parking operations). In addition to NISSEI BUILD KOGYO, the Parking operation & management business is conducted by NB PARKING CO.,LTD, (formerly Towa Koken Co., Ltd.), which was acquired in March 2013, and P-PARKING INTERNATIONAL PTE LTD (Singapore), which was acquired in August 2017. The Group has the leading track record in the industry as a "Parking Structure comprehensive manufacturer" that handles every type of Parking Structure, from large-scale parking lots like those used for commercial facilities and apartment buildings, through to two-stage parking lots for homes. Since 2013, it has also entered the South East Asia market, which is achieving remarkable economic growth (it is presently conducting businesses in Thailand and Singapore) and it seems at the current time, overseas net sales have reached a scale of ¥3.5bn. Going forward, its policy is to aim to expand the business while utilizing the expertise unique to the Group and its other strengths, while thoroughly conducting market research.

(3) The General Construction business

The General Construction business conducts contract work and renovations for construction projects and civil engineering projects. It was launched in FY3/13 following the acquisitions of Ozawa Construction Co., Ltd., (currently, Nbc-kitakantou.Co.ltd) and Sotetsu Construction Co., Ltd. (currently NB CONSTRUCTION CO.LTD). At the present time, in addition to NB CONSTRUCTION and Nbc-kitakantou, this business is conducted by Urban-Staff Co., Ltd., which was acquired in July 2018, and a strength is that these three companies have strong foundations in the Kanto area. They can compartmentalize the market (according to scale, uses, etc.) with the Systemized Construction business, and have a mutually complementary relationship. Moreover, there remains plenty of room to create business synergies, including by utilizing the Group's proprietary Systemized Construction products that have superior cost performance and functionality.

(4) The Property Development business

The Property Development business includes the development, buying and selling, and rental of real estate. It was launched in FY3/14 following the establishment of NB INVESTMENT CO.,LTD. It mainly develops real estate that generate stable cash flows such as commercial facilities and composite facilities, including major convenience stores and drug stores. The basic approach is to conduct sales to investment funds and others after completion, and the earnings model is to acquire rental income during the ownership period and gains on sales, and also consulting income (collections of property management fees, etc. are expected even after sales). It undertakes the Group's land development hub function and is expected to play the role of increasing the earnings of the Group as a whole, including through collaborations with the Systemized Construction business and the General Construction business.

(5) The Facility Management business

The Facility Management business involves cleaning, maintenance, management and consulting of buildings and equipment. It was launched in FY3/16 following the establishment of NB Management Co., Ltd. Its aims include providing total solutions to customers (enhancing after-sales services) and strengthening the recurring-revenue businesses.

Company outline

2. Management philosophy and vision for spaces

In September 2019, the Company announced the revised Group mission and its management philosophy and vision for spaces, which shows the growth areas. It set the new management philosophy of “Our mission is to continue to create ‘the value of spaces’,” so while inheriting the previous corporate philosophy of “Increasing the value of spaces,” the new philosophy also contains an awareness of how the Group can contribute to society in the future. It has also defined the growth areas (vision for spaces) as 1) the creation of “working spaces” that are useful for society, 2) the creation of “kind spaces” that contribute to the environment, 3) the creation of “strong spaces” that are resistant to disasters, and 4) the creation of “support spaces” that generate synergies. In particular, it can be said to have shown a direction toward realizing sustainable growth through measures for the Sustainable Development Goals (SDGs) and to create synergies between its businesses.

3. History

The Company was established in October 2018 as a holding company through a standalone share transfer by NISSEI BUILD KOGYO. Therefore, the origin of the Company can be traced back as far as July 1961 when NISSEI BUILD KOGYO was established. NISSEI BUILD KOGYO was established in Kanazawa City, the location of its current head office, for the manufacture and sales of assembling-type garages. Subsequently, while aiming to supplement and transform its business foundation, including by establishing the housing business headquarters (1968), the residential business headquarters (1974), the construction materials business headquarters (1980), the parking structure business headquarters (1988), and the building lease business headquarters (1993), it has expanded its businesses, such as through developing production bases in various regions nationwide. During this time, in 1978 it was listed on the Second Section of Osaka Stock Exchange, and then in October 1996, it was listed on the First Section of Tokyo Stock Exchange.

Following the Great East Japan Earthquake of March 2011, the Company conducted construction work, including providing emergency temporary housing, and it contributed to the restoration and recovery of the disaster areas. From around 2012, it worked to expand its business areas, including through strategic M&A. It acquired all of the shares and made subsidiaries of Ozawa Construction (currently Nbc-kitakantou) in September 2012, of Sotetsu Construction (currently NB CONSTRUCTION) in February 2013, and of Towa Koken (currently NB PARKING) in March 2013. In addition, it established NB Facilities Co, Ltd. in September 2013 (integrated with NB Management in January 2017), NB INVESTMENT in December 2013, and GFM Co, Ltd. (currently NB Management) in April 2015, thereby building a system to create spaces with value, from land utilization through to construction, operations, and maintenance. Subsequently also, it aimed to further strengthen its business foundation through making subsidiaries of Komatsu House (currently System House R&C) in April 2016 and Urban-Staff in July 2018.

For overseas business development, the Company has targeted entering the South East Asia market, which is achieving remarkable economic growth. In January 2013, it established a subsidiary in Singapore, NISSEI BUILD ASIA PTE. LTD., as a base for its fully fledged entry. Then in July 2013, it established a subsidiary in Thailand, SPACE VALUE (THAILAND) CO., LTD., to conduct Systemized Construction and Parking Structure businesses, while in August 2017 in Singapore, it acquired the shares and made a subsidiary of P-PARKING INTERNATIONAL PTE LTD, which conducts a Parking operation & management business. In such ways, it has worked to strengthen its business foundation centered on the Singapore subsidiaries, NISSEI BUILD ASIA PTE. LTD., and P-PARKING INTERNATIONAL PTE LTD, and the Thai subsidiary, SPACE VALUE (THAILAND) CO., LTD.

■ The Company's features

Strengths including the provision of an integrated system and response capabilities through utilizing its nationwide network. Has built a structure for the Group as a whole to increase the value of spaces

1. Strengths of the core business (Systemized Construction business)

(1) An integrated system, from parts production, design, and construction, through to maintenance

The Company's Group has both construction industry and manufacturing industry functions, and it has built an integrated system, from parts production, design, and construction through to maintenance. Through this system, it can not only provide comprehensive support, but it can also respond to a wide range of needs flexibly and realize cost reductions through standardized mass production, which in turn is leading to the high levels of customer satisfaction and the earnings capabilities of the Group itself (the Systemized Construction business).

(2) Response capabilities from plants and sales bases in various regions nationwide

The Group operates a network of plants and sales bases in various regions nationwide and is able to respond flexibly even should a disaster occur someplace, and in such ways, it can be said that one of its major strength is that it has in place the capability to capture demand on a nationwide scale. In particular, there are few companies conducting a nationwide business in the area of buildings of less than 2,000m², which is an important differentiation factor. In terms of the number of bases of NISSEI BUILD KOGYO and System House R&C, which conduct the Systemized Construction business, NISSEI BUILD KOGYO has 39 sales offices, 8 plants (included rental yards), and 8 maintenance centers, while System House R&C has 21 sales offices, 1 plant, and 10 rental yards.

(3) Differentiation through a products group with distinctive features

Inherently, Systemized Construction has features such as labor saving, stable costs, and short construction periods compared to conventional construction methods. But the Company's products further pursue these features through utilizing the technological capabilities and development capabilities it has cultivated over many years. In particular, it secures high cost performance and sufficient strength and rigidity including through the use of its mainstay product, the NISSEI V SPAN-S, which is the only H-type lightweight steel frame in Japan, and also by adopting a very strong joint construction method. Furthermore, in its products group, in addition to Systemized Construction (width of 10m to 40m), it also handles prefabricated houses (less than 10m) and unit houses*, and it utilizes the features of each respective product to respond to a wide range of needs.

* A product in which units completed at plants are assembled, enabling the building to be constructed in a short period according to needs.

The Company's features

2. A system for the Group as a whole to create value**(1) A system to support all scenes for the utilization of spaces**

The Group has established a system to support all scenes for the utilization of spaces, including 1) land development, 2) construction (Systemized Construction, Parking Structure, and General Construction), 3) operations and management (metered parking and bicycle parking lots, and business-use facilities), 4) facilities management and maintenance (Parking Structure maintenance, comprehensive management of commercial stores and buildings, etc.), and 5) renovations (Parking Structure renovations, large-scale repair work, etc.) Through this system, its strengths include that it is able to build relations of trust with the land owner (lease holder) who is considering land utilization, and to progress acquisitions of Company-led projects from a superior position, which contributes to improving profitability.

(2) Creating synergies between the businesses

With Systemized Construction as the core business, the Company is aiming to realize sustainable growth through creating synergies between the land utilization, Parking Structure, and General Construction businesses. Already up to the present time, it has realized a number of success case studies through synergies between businesses, including 1) land utilization (developments of convenience stores and drug stores, etc.) and Systemized Construction, 2) collaborations between land utilization (developments of composite facilities, of convenience stores and residences, etc.) and General Construction, 3) constructions of apartment buildings with Parking Structure attached, 4) the utilization of the Group's own products (system and prefabricated) in General Construction, and 5) bulk proposals and cross sales through Systemized Construction and General Construction.

(3) A composite earnings structure

A feature of the Group is that it has a composite earnings structure that includes both flow-type and recurring-income type businesses. In particular, the recurring income-type businesses, including the rental of Systemized Construction buildings and the maintenance of Parking Structure, the operation and management of parking lots, the operation of commercial facilities, and the facilities management of commercial facilities, are contributing to improving the earnings of and supporting the Group. Also, in addition to private-sector demand, it actively responds to demand from government offices and agencies (including PPP/PFI business*), which are not greatly affected by economic fluctuations, which is contributing to diversifying and stabilizing its sources of earnings.

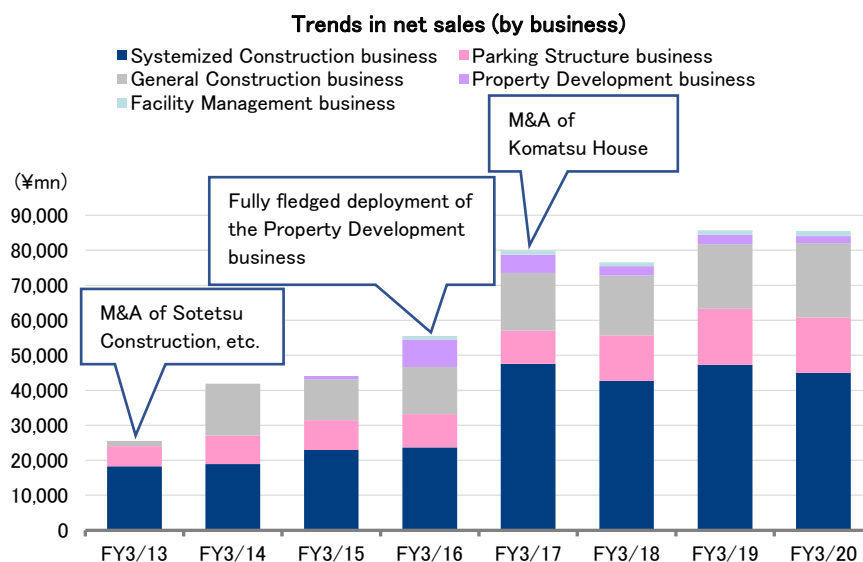
* PPP (Public Private Partnership) is a framework of a public sector-private sector collaboration to provide public services. One typical method of this is PFI (Private Finance Initiative), in which private-sector funds and expertise are utilized for the design, construction, facilities management and operations of public facilities, etc., and in which public services are provided mainly by the private sector, with the aims of providing public services effectively and efficiently.

Results trends

The expansion of business areas, including through strategic M&A, is driving the growth in net sales. Conversely, the profit margin is trending downward due to changes to the sales composition and cost increases

Looking at how net sales have trended in the last eight years*, overall, they have trended strongly in the Systemized Construction business and the Parking Structure business, which have been the mainstay businesses since the Company's establishment. In addition, the growth was from the expansion of the General Construction business due to acquisitions, including of Sotetsu Construction in FY3/14, from the fully fledged deployment of the Property Development business in FY3/16, and from the expansion of the Systemized Construction business following the acquisition of Komatsu House in FY3/17. In particular, the temporary demand in FY3/17 to respond to the Kumamoto Earthquake (provision of emergency temporary housing) was important and the results set new record highs. Therefore, the major factors driving the sales growth have been the strengthening of the business foundation through a series of M&A, and also the expansion of the business areas through launching businesses, including the Property Development business and the Facility Management business. However, in the last few years, the sales growth has continuously levelled-off, as the Company has worked assiduously to strengthen the internal structure following the discovery of an accounting scandal in NISSEI BUILD KOGYO.

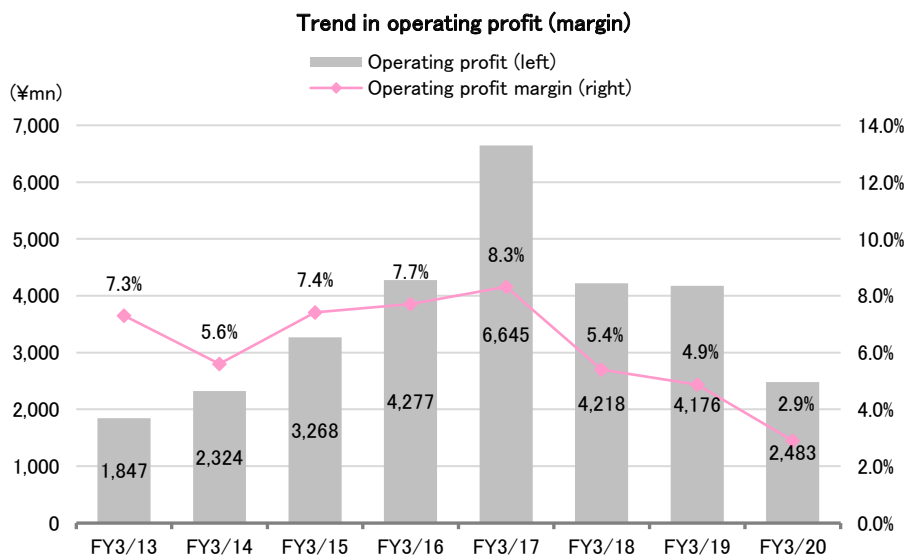
* Results before FY3/18 are NISSEI BUILD KOGYO's results.



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

The Company's features

In profits, up to FY3/17, the operating profit margin trended in a range of around 7% to 8%, and profits rose alongside the increase in sales (profit attributable to owners of parent was a new record high in FY3/17). However, since FY3/18, the operating profit margin has declined due to factors including changes to the sales composition and the effects of overseas M&A (increases in depreciation costs and amortization of goodwill). Moreover, in FY3/20, profits were affected by the recording of (temporary) costs relating to implementing measures to prevent the reoccurrence of an accounting scandal. Going forward, the Company intends to improve profitability through growing the highly profitable Systemized Construction business and creating synergies between the businesses.

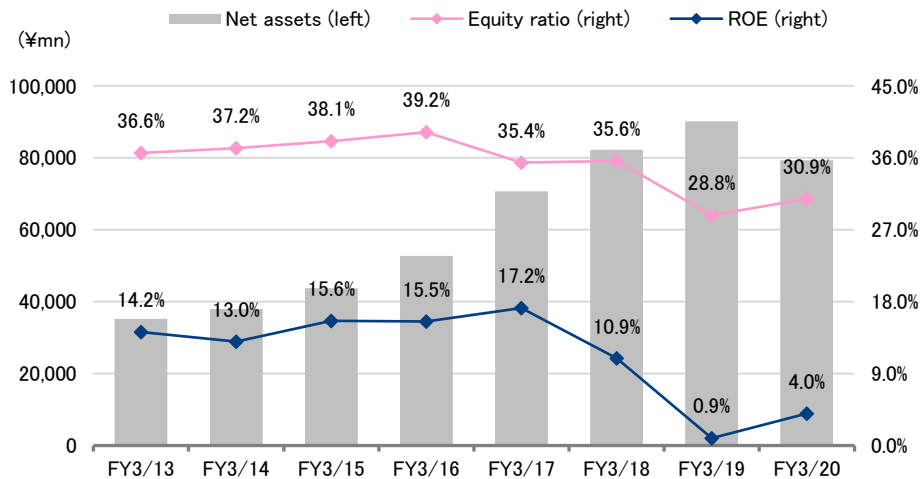


Source: Prepared by FISCO from the Company's financial results and news releases

Looking at the financial condition, net assets have trended upward, including due to the M&A and the deployment of the Property Development business. Shareholders' equity has also increased, mainly due to the accumulation of internal reserves and the execution of share acquisition rights, and the equity ratio is trending roughly in the 30% range and there are no concerns about financial stability. The reason why net assets decreased in FY3/20 was that, following the decision to withdraw from the hotel development business, the Company liquidated the assets relating to this business. ROE, which shows capital efficiency, was maintained at above 10% up to FY3/18, but it has trended at a lower level since FY3/19 alongside the decline in the profit margin, but a major reason for the decline in ROE in FY3/19 was a temporary factor (impairment of development assets). Going forward, it is considered that the Company will work to improve both the profit margin (profitability) and ROE.

The Company's features

Trends in net assets, the equity ratio, and ROE



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

Results summary

In the FY3/21 1H results, net sales and operating profit declined, but were within the expected ranges. Toward the 2H, there are signs of a recovery in ordering activities

1. Summary of FY3/21 1H results

In the FY3/21 1H results, net sales decreased 8.3% YoY to ¥34,109mn, the operating loss was ¥73mn (compared to profit of ¥787mn in the same period in the previous fiscal year), ordinary profit declined 95.4% to ¥37mn, and profit attributable to owners of parent increased 146.1% to ¥514mn. So net sales and operating profit declined and an operating loss was recorded, but these declines were within the expected ranges. However, profit attributable to owners of parent increased significantly due to a reduction in tax costs (realization of tax effects).

Results summary

In FY3/20, results were affected by the Company's focus on strengthening the internal structure following the discovery of an accounting scandal in NISSEI BUILD KOGYO, and there occurred a shortfall in the accumulation of outstanding orders for construction projects at the beginning of FY3/21*. As a result, sales decreased significantly in the Systemized Construction business and the Parking Structure business. In particular, in the Systemized Construction business, sales were low for plant, warehouse, and store construction work. In the Parking Structure business, the impact of the coronavirus was severe and orders decreased, including for commercial facilities-related. However, toward FY3/21 2H, it seems that there are signs that ordering activities are recovering. Conversely, in the General Construction business, large-scale repair work contributed, while in the Property Development business as well, an increase in sales was secured, including from the accumulation of rental income alongside a major convenience store development.

* At the end of March 2020, outstanding orders had decreased 8.2% on the end of the previous fiscal period in the Systemized Construction business, decreased 40.1% in the Parking Structure business, and decreased 35.3% in the General Construction business (as the total of the three businesses, a decrease of 24.4%).

In profits, an operating loss was recorded due to the decrease in gross profit alongside the decline in sales, and also because of a slight increase in SG&A expenses. SG&A expenses increased ¥48mn YoY, due to an increase in personnel expenses following the optimal deployment of personnel (an increase in personnel) which outweighed the declines in travel and transportation expenses and entertainment expenses due to the impact of the coronavirus. Also, as previously stated, the reason for the major increase in profit attributable to owners of parent was a reduction in tax costs (realization of tax effects) following the sale of a hotel development site (Kyoto City).

In the financial condition, net assets were down 4.3% on the end of the previous fiscal period to ¥75,864mn, including due to the decrease in notes receivable and unpaid income from completed construction work because of the lower sales. Conversely, shareholders' equity increased 5.7% to ¥25,862mn due to the accumulation of internal reserves and the increase in the Valuation difference on available-for-sale securities*, and as a result, the equity ratio improved to 34.1% (30.9% at the end of the previous period).

* Alongside the rise in the market values of investment securities held (fixed assets)

Results summary

Summary of FY3/21 1H results

	1H FY3/20		1H FY3/21			
	Result	% of sales	Result	% of sales	YoY change	% change
Net sales	37,215		34,109		-3,106	-8.3%
Systemized Construction business	19,464	52.3%	17,978	52.7%	-1,486	-7.6%
Parking Structure business	8,644	23.2%	6,747	19.8%	-1,897	-21.9%
General Construction business	8,188	22.0%	8,666	25.4%	478	5.8%
Property Development business	172	0.5%	200	0.6%	27	15.8%
Facility Management business	745	2.0%	516	1.5%	-228	-30.7%
Cost of sales	31,516	84.7%	29,223	85.7%	-2,293	-7.3%
SG&A expenses	4,911	13.2%	4,959	14.5%	48	1.0%
Operating profit	787	2.1%	-73	-	-860	-
Systemized Construction business	1,620	8.3%	1,405	7.8%	-215	-13.3%
Parking Structure business	465	5.3%	135	2.0%	-320	-70.3%
General Construction business	271	3.3%	222	2.6%	-49	-18.1%
Property Development business	60	34.9%	68	34.0%	8	13.3%
Facility Management business	-118	-	-73	-	45	-
Adjustment	-1,501	-	-1,831	-	-330	-
Ordinary profit	829	2.2%	37	0.1%	-791	-95.4%
Profit attributable to owners of parent	208	0.6%	514	1.5%	305	146.1%
Breakdown of the Systemized Construction business						
Prefab sales business	13,322		11,059		-2,263	-17.0%
Prefab lease business	6,141		6,918		777	12.7%
Breakdown of the Parking Structure business						
Parking Structure sales business	4,840		3,737		-1,102	-22.8%
Parking Structure maintenance business	1,311		983		-328	-25.1%
Parking operation & management business	2,492		2,026		-465	-18.7%
	End of FY3/20		1H FY3/21			
	Result		Result	YoY change	% change	
Net assets	79,307		75,864	-3,443	-4.3%	
Shareholders' equity	24,472		25,862	1,390	5.7%	
Equity ratio	30.9%		34.1%	-	-	

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

The results of each business are as follows.

(1) The Systemized Construction business

Net sales decreased 7.6% YoY to ¥17,978mn and segment profit fell 13.3% to ¥1,405mn, so sales and profits declined. In the Prefab sales business, office construction projects were strong, but the weakness of private sector construction projects as a whole had an effect, so plant, warehouse, and store construction projects trended at low levels and sales fell 17.0% to ¥11,059mn. Conversely, in the Prefab lease business, although there was a decrease for temporary school buildings, including due to the earthquake resistance work for school facilities, large-scale repair work for public facilities contributed and sales steadily grew, increasing 12.7% to ¥6,918mn, contributing to support earnings.

Results summary

(2) The Parking Structure business

Sales and profits decreased, with net sales declining 21.9% YoY to ¥6,747mn and segment profit falling 70.3% to ¥135mn. In the Parking Structure sales business, orders fell mainly for commercial facilities and in the hourly and monthly rental business, and net sales declined 22.8% to ¥3,737mn. In the Parking Structure maintenance business as well, renovation projects declined and net sales trended at a low level, falling 25.1% to ¥983mn. The Parking operation & management business was impacted by factors including the self-restraint on going out and commercial facilities' self-restraint on sales activities due to the coronavirus, while in addition, the number of managed parking lots decreased* due to the withdrawal from unprofitable buildings and the sale of a hotel development site, so net sales decreased 18.7% to ¥2,026mn. At the end of September 2020, the numbers of operations and management sites (and spaces) were 413 sites and 4,399 spaces for parking lots (a net increase of 71 spaces on the end of the previous fiscal period), 79 sites and 13,196 spaces (a net decrease of 515 spaces) for bicycle parking lots, and 298 sites and 127,089 spaces (a net decrease of 3,403 spaces) for overseas parking lots.

* Conducted parking lot operations in order to temporarily utilize the land owned for hotel development (until the start of development).

(3) The General Construction business

Net sales increased 5.8% YoY to ¥8,666mn and segment profit declined 18.1% to ¥222mn, so profits decreased while sales increased. Sales were strong, as although railway construction work and building and repairs work decreased, large-scale repair work and construction work other than for apartments increased. Conversely, profits declined, including because of the rise in construction-work cost prices and the decline in highly profitable types of construction work.

(4) The Property Development business

Sales and profit increased, with net sales rising 15.8% YoY to ¥200mn and segment profit increasing 13.3% to ¥68mn. The Company accumulated rental income by promoting the development of major convenience stores and drug stores, in addition to increasing income from consulting work.

(5) The Facility Management business

Net sales decreased 30.7% YoY to ¥516mn and the segment loss was ¥73mn (compared to a loss of ¥118mn in the same period in the previous fiscal year), so while sales declined, the extent of the loss shrank. Sales declined as they were affected by the suspension of cleaning work following the temporary closures of commercial facilities. But the extent of the segment loss shrank due to measures to improve profitability.

2. Summary of the FY3/21 1H results

To summarize the FY3/21 1H results from the above, results fell significantly because the Company's response to an accounting scandal in the past caused a shortage of outstanding orders at the beginning of FY3/21, and also as some businesses were impacted by the coronavirus. However, it is necessary to be aware that these reasons were ultimately only temporary special factors and do not indicate a deterioration of the structural ordering environment or a decline in competitiveness. On the other hand, a point worthy of a positive evaluation is that during the coronavirus period, the results are being supported by a certain level of earnings from the recurring income-type businesses, including the rental business and the operations of commercial facilities. In addition, positive signs for the future include that to a certain extent the end is in sight for the response to the accounting scandal and that momentum is returning for the accumulation of outstanding orders.

Results outlook

The FY3/21 forecasts are for net sales to decline and for operating profit to be basically unchanged YoY. Although the 1H results declined, is aiming for a recovery in the 2H

1. FY3/21 forecasts

The Company's FY3/21 results forecasts (announced on October 7, 2020) are for net sales to decrease 6.4% YoY to ¥80,000mn, operating profit to increase 0.7% to ¥2,500mn, ordinary profit to fall 12.4% to ¥2,500mn, and profit attributable to owners of parent to increase 158.7% to ¥2,580mn. The reasons for the high rate of increase in profit attributable to owners of parent are the recording of extraordinary income from the gain on the sale of a hotel development site (Kyoto City) and a decrease in tax costs.

Net sales trended at a low level in 1H but are expected to recover in the 2H. However, it is necessary to be aware that this assumes that there will be no major restrictions to economic activities due to the coronavirus.

In profits, the outlook is that operating (and ordinary) profit will be secured for the full fiscal year, including due to the improvement in earnings following the recoveries of orders and sales, and cost reductions.

FY3/21 forecasts

	1H FY3/20		1H FY3/21			
	Result	% of sales	Forecasts (October 7)	% of sales	YoY change	% change
Net sales	85,481		80,000		-5,481	-6.4%
Operating profit	2,483	2.9%	2,500	3.1%	17	0.7%
Ordinary profit	2,855	3.3%	2,500	3.1%	-355	-12.4%
Profit attributable to owners of parent	997	1.2%	2,580	3.2%	1,583	158.7%

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

2. The view of FISCO's analysts

In order to achieve the FY3/21 results forecasts, in FY3/21 2H the Company must achieve net sales of ¥45,891mn (down 4.9% YoY), operating profit of ¥2,573mn (up 51.7%), and an operating profit margin of 5.6%. In particular, the hurdles to achieve the profit forecasts are high, but if it progresses measures to improve profit and loss, starting with the growth of the Systemized Construction business, our view is that it is fully possible for it to achieve them when judged from the Group's inherent earnings strength. However, ultimately this assumes that the coronavirus will not have a major impact on economic activities and companies' willingness to conduct capital investment (timing), and it would seem necessary to view this situation cautiously. Whatever the case, with an eye to the with-coronavirus and the after-coronavirus periods, we shall be paying attention to the specific measures toward realizing the medium-term management plan, which are described below, and the outcomes of them.

■ The medium-term management plan (future direction)

An environment for both the external and internal factors is gradually being established. Is aiming for sustainable growth through returning to the main businesses and creating synergies between the businesses

1. Basic policies

Based on the previously described management philosophy and vision for spaces, the Company has set the image of what it wants to be in 10 years' time as "A company that creates spaces that are useful for people's lives," and it has formulated the three-year medium-term management plan as the first step toward realizing this image. Features of the plan include its key theme of "returning to the main businesses" based on a reflection of up to the present time (including withdrawing from the hotel development business, for which synergies were not expected for the Group as a whole). In other words, the direction it is taking is to position the construction business (system and prefabricated) as the core business, and based on this, to grow each of the land utilization, Parking Structure, and General Construction businesses through creating synergies between these businesses. In particular, through the contents of the following four basic policies, it will increase the value of spaces, which will lead to the growth of the respective businesses.

- 1) With the construction business (system and prefabricated) as the core business, be active in the growth area of buildings less than 2,000m², which occupy an overwhelming share of buildings for business use
- 2) Leverage synergies between businesses and horizontally develop nationwide land utilization solutions and the PPP/PFI business
- 3) Conduct product development and effective investment that match the Company's vision for spaces and bring about innovation
- 4) Work on strategic M&A and alliances for the functions and opportunities necessary for growth

2. Awareness of the environment

To evaluate the Company's growth potential, we shall consider the room for growth of the construction business (system and prefabricated), its most important business. On looking at the number of construction projects by the scale of the steel frame of the buildings that the Company targets (offices, stores, plants, and warehouses), buildings of less than 2,000m² constitute 93% (approximately 27,000 buildings) of all buildings and form a large market based on the number of buildings. Incidentally, buildings of 2,000m² and larger, which constitute the remaining 7%, comprise an area crowded with major and medium-sized general contractors and construction manufacturers that handled large-scale buildings, and to a certain extent are divided according to scale. However, among buildings of less than 2,000m², which constitute 93% of all buildings, the market share of Systemized Construction has still not reached 10% and almost all of them continued to be constructed by conventional construction methods. Therefore, if the superiority of Systemized Construction becomes widely recognized, it can be said that this is a market with plenty of room for growth.

The medium-term management plan (future direction)

If speaking of the reasons why Systemized Construction will grow in the future, we can anticipate that demand will grow from two needs; 1) construction needs due to the decrease in carpenters and 2) production needs alongside the decrease in steel frame manufacturing plants. First, for 1) construction needs, the number of carpenters has been trending downward year by year and is expected to decline by 50%*1 between 2010 and 2030. Alongside this, the trend toward systemization (prefabrication) has already started for constructions of new buildings. Also, for 2) production needs, the number of steel frame manufacturing plants that manufacture parts decreased by 30%*2 from 2009 to 2019, and the situation is becoming that supply cannot keep up with demand. Therefore, with these factors in the background, the potential demand is great for Systemized Construction as a highly versatile, standardized construction product. For the Company, which has design, manufacturing (production plants) and construction (regional network) functions, this situation can be recognized as presenting a major business opportunity to provide alternative functions, as other manufacturing functions are insufficient.

*1 From the Company's financial results briefing materials. Sources are the forecasts of the Nomura Research Institute and the results of the Nation Census of the Ministry of Internal Affairs and Communications

*2 From the Company's financial results briefing materials. Sources are the Japan Steel-fabricated Appraisal Organization and the Nationwide RJ Group Subcommittee Information Publication

On the other hand, on looking at the construction market as a whole, we see many supply-side issues, including the shortage of engineers and soaring materials prices and transportation costs. However, it is considered that the demand side is trending solidly due to factors such as the increase in disaster-prevention investment, including for national land resilience measures, and the demand for environment-related businesses and products from the rise in environmental awareness.

3. Specific strategic themes

(1) Establishing the construction business as the core business

The measures for the construction business include 1) deepening in the growth area of buildings of less than 2,000m², 2) activating the rental business, and 3) developing solutions, and the Group's role as a manufacturer is increasing in an industry in which there is a shortage of leaders. In particular, 1) deepening in the growth area is the axis of its growth strategy and it is aiming to increase market share, including by progressing product development and sales in the Group as a whole. Also, an important theme is increasing profits through 2), the rental business, and it is considered that it will focus on continuously capturing demand from government offices and agencies, which are not greatly affected by economic fluctuations. In addition, as increasing the rental rate of prefabricated houses will lead to a reduction in the environmental burden, it is working to create business opportunities for this as a measure toward resolving a societal problem.

(2) Providing total parking lot solutions

For the Parking Structure business, the measures include 1) rebuild it as a core business, including by establishing a structure for comprehensive-solution proposals and manufacturing core technologies in-house; 2) strengthen the ability to provide proposals to the market, and 3), create and participate in the PPP/PFI business, and the aim is to improve services by providing one-stop solutions. Through utilizing M&A and alliances, it seems that the Company also has in its sights increasing market share through demonstrating its leadership in the industry. In addition, for the PPP/PFI business, which is a field it is focusing on, it is aiming to create parking lot proposals that utilize the merits possessed only by manufacturers and also to accumulate expertise in facilities management and operations, which will lead to an improvement in added value.

The medium-term management plan (future direction)

(3) Nationwide deployment of the land utilization business

The measures include 1) strengthening relations within the Group, 2) collaborations with the construction business and the General Construction business, and 3) creating a new development segment. This business will contribute to urban development in regions through actualizing the potential of “locations” and “spaces.” In particular, creating synergies with the land utilization business is the key to improving profitability and is an important strategic theme. So the same as up to the present time, it is considered that this business will work on collaborations, including with the construction business and the General Construction business, and also on deploying nationwide its expertise in land utilization and proposal capabilities that it has accumulated up to the present time.

(4) Social contributions through the PPP/PFI business

The Company will 1) strengthen efforts for the PPP-related market, which continues to grow, 2) promote the development of this business by utilizing the multi-faceted network, and 3) deploy solution-based sales nation to create spaces that are useful for people’s lives. In other words, the scenario depicted is of aiming to be a company that is essential to society through solving problems in the public field, which will lead to the sustainable growth of the Company itself. It will also deploy solution-based sales nationwide by utilizing its track record in public works projects and its expertise in PPP.

(5) Strengthening synergies with the General Construction business

The continuous growth of the core businesses will be supported by 1) creating synergies with the construction business, 2) building a stable foundation and improving profitability, and 3) strengthening organizational, proposal, and technological capabilities. Continuing from previously, it will work on measures including differentiation through the Group’s construction products, bulk proposals such as for Parking Structure, and participation in projects for government offices and agencies and in service-related projects.

(6) Rebuilding the overseas business

The Company will build a system that can respond to “everything” related to parking systems, including through 1) rebuilding the structure for overseas deployment, 2) developing next-generation parking lot equipment and 3) contributing to society as a systems integrator. In particular, toward deepening operations in the South East Asia market, which is expected to achieve high growth, it intends to strengthen the structural aspects while thoroughly conducting market research, and in addition, its strategy is business deployment on the axis of product development as a parking lot manufacturer. It is also working on measures including developing the next-generation parking lot equipment by applying advanced technologies, such as robots, and also parking lot control equipment compatible with smart parking.

4. Numerical targets

The numerical targets for the medium-term management plan’s final fiscal year (FY3/23) are 1) consolidated ordinary profit of at least ¥4.5bn (and an ordinary profit margin of at least 5%), 2) ROE of at least 10%, and 3) a dividend payout ratio of 30%, to be achieved through investing in growth and building “a strong management foundation” able to respond to changes in the business environment. In particular, it can be said that the Company is prioritizing improving profitability (accumulating profits) and capital efficiency, the specific measures for which are explained below.

(1) Accumulating consolidated ordinary profit

It will grow the new fields, particularly the land development business and the PPP business, combining this with an increase in orders in the highly profitable Systemized Construction business. It will also work to improve productivity by realizing workstyle reforms (and increasing the sophistication of workstyles), including through utilizing IT.

The medium-term management plan (future direction)

(2) Improving ROE

ROE can be broken down into three elements; profitability (net profit / net sales) x efficiency (net sales / net assets) x financial leverage (net assets / shareholders' equity). The Company is working on improving profitability and efficiency as the priorities. This overlaps with the aforementioned 1) accumulating ordinary profit, but its strategy is also to optimize the business portfolio, as well as developing products that meet market needs, advancing solution-based sales, and increasing added value by improving productivity. In addition, to improve efficiency, the Company is selling real estate that is only weakly connected to its main businesses, periodically reviewing its share holdings, and investing in and utilizing assets that prioritize efficiency.

5. Approach for the allocation of resources

In order to realize the image of what it wants to be in 10 years' time, it is thought that the Company is actively investing in building a foundation. In terms of the specific, three-year investment plan, it is considering investing ¥10bn in building a foundation (investment in production facilities, rental-operations assets, etc.), at least ¥5.5bn in the growth strategy (strategic M&A and alliances, new businesses, etc.), ¥500mn in R&D costs, and also ¥2bn in returns to shareholders (dividends). The expected sources of funds for these investments include ¥13.5bn from cash flows from operating activities and around ¥4.5bn from gains on sales of non-operating assets.

6. Points to be aware of from FISCO's analysts

At FISCO, our analysts also consider that there remains plenty of room for sustainable growth and to improve profitability in the future, when judged from the external environment (the growth in demand for Systemized Construction) and the internal environmental (including the Company's superiority in Systemized Construction and the establishment of a structure that can focus on ordering activities). Also, the direction it is taking, of growing the highly profitable Systemized Construction business through creating synergies between the businesses, can also be evaluated as an intelligent strategy. Therefore, even should, for example, overall construction demand for business-use buildings contract, our view is that the Company is still fully capable of achieving its numerical targets through increasing market share and improving added value.

The medium-term management plan (future direction)

In particular, toward achieving the consolidated ordinary profit target of ¥4.5bn, taking as the baseline the FY3/20 result of ¥2.8bn, it will need to increase it by ¥1.7bn over three years. At FISCO, our analysts considered this to be fully within an achievable range if the Company accumulates profits through increasing sales in the Systemized Construction business and improves segment profit. For example, as one approach, assuming the Systemized Construction business records net sales of ¥50bn in FY3/23 (up ¥5bn compared to FY3/20) and a segment profit margin of 11% (up 2% compared to FY3/20), then it can increase profits by ¥1.5bn* even in just the Systemized Construction business. Therefore, our understanding is that results will depend greatly on how it grows the Systemized Construction business and how it aims to improve the profit margin. For this, the key would seem to be a strategy of increasing sales in the Systemized Construction business and improving the profit margin by acquiring Company-led projects that utilize the Group's proposal capabilities through planning in the land utilization business. Whatever the case, these three years can be understood to be the first stage toward realizing its 10 year vision, and in addition to achieving the numerical targets, the important theme will be showing specifically a value-creation model that is unique to the Company, of how will it contribute to society and how will it realize growth. In particular, as the path to take in the medium- to long-term, we shall be focusing on its measures including strengthening the business foundation through M&A and alliances, innovative product development with an eye to the next generation of products, human resources development (staff and engineers with advanced specialist expertise), and solving societal problems (environmental response, contributions to local communities, etc.)

* This shows one approach (model) to profit growth from FISCO's analysts, calculated as ¥50bn x 11% - ¥4bn (the segment profit of the Systemized Construction business in FY3/20) = ¥1.5bn. The Systemized Construction business' segment profit margin declined to 9% following the decrease of sales in FY3/20, but during the three years of the previous medium-term management plan (FY3/17 to FY3/19), it was kept every year at a level above 11%. Therefore, together with the growth of net sales, it is considered that improving the segment profit margin to 11% is not an unreasonable assumption, and what we see as the key point here is how will it aim to achieve the upside from this.

Shareholder return

In FY3/21, plans to pay a period-end dividend of ¥15, the same as in the previous period. Plenty of room to increase the dividend though profit growth

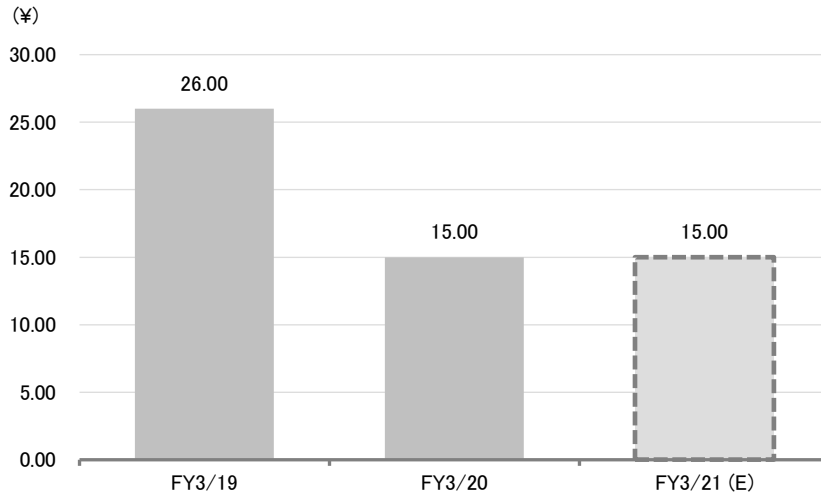
The Company's basic policy is to continuously pay a stable dividend while comprehensively considering factors such as the financial condition and business development in the future.

For the FY3/21 period-end dividend, at the current stage it plans to pay a dividend per share of ¥15, which is the same as in FY3/20.

In the current medium-term management plan, in order to invest in the Group's growth and to improve productivity, and also to allocate investment to improve employee engagement, it has set a dividend payout ratio standard of 30% (the standard was 35% in the previous medium-term management plans). But even so, it is considered that there is plenty of room to increase the dividend though profit growth.

Shareholder return

Dividend per share



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



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■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp