

# Cosmos Initia Co., Ltd.

**8844**

TSE JASDAQ

31-Jul.-2019

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FISCO Ltd.

<http://www.fisco.co.jp>

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\*This is an English translation of a report issued on June 26, 2019.

## Summary

### Medium-term business plan 2021 starts, expecting growth in the new Lodging business

Cosmos Initia <8844> is a mid-tier developer of condominiums and detached housing, specializing in family-oriented condominiums for first-time buyers. Geographically, it operates mainly in the greater Tokyo area and in the Kinki region. The Company was found in 1969 as a subsidiary of Japan Recruit Center (now Recruit Holdings Co., Ltd.), but is now pursuing a growth strategy as a subsidiary of Daiwa House Industry <1925> and member of the Daiwa House Group. The scope of Cosmos Initia's business has broadened over the years outside of newly-built condominiums as it has gained expertise in different areas and customer needs have grown more diverse. The Company's business is split into four segments. The Residential business provides housing-related products and services, the Solutions business is engaged in buying and selling of investment real estate as well as rental management, while the Company is also engaged in the Construction business and the Overseas business. In FY3/19, the Residential business accounted for 37% of sales, the Solutions business 51%, the Construction business 11%, and the Overseas business 1%.

In its Residential business, Cosmos Initia offers various brand lines including its INITIA series of newly-built condominiums, GRAND FORUM series of newly-built detached housing, and its &Renovation series of renovated pre-owned condominiums. The Company has a longstanding reputation for high-quality, customer-oriented service, including its product planning capabilities to create new services and its after-sale service. In its Solutions business, the Company offers various corporate agency brokerage services, including subleasing of condominiums for rent, office buildings, and other types of properties, investment real estate involving sales of condominiums and buildings, investment real estate brokerage services, and consulting services for investment property development. In this area, the Company is distinguished by its one-stop service that draws on the resources of the entire group. The Construction business builds condominium galleries, handles sales of interior design options, and does renovation work in connection with office relocations. The Overseas business has been managing a resort hotel in Australia, among other activities.

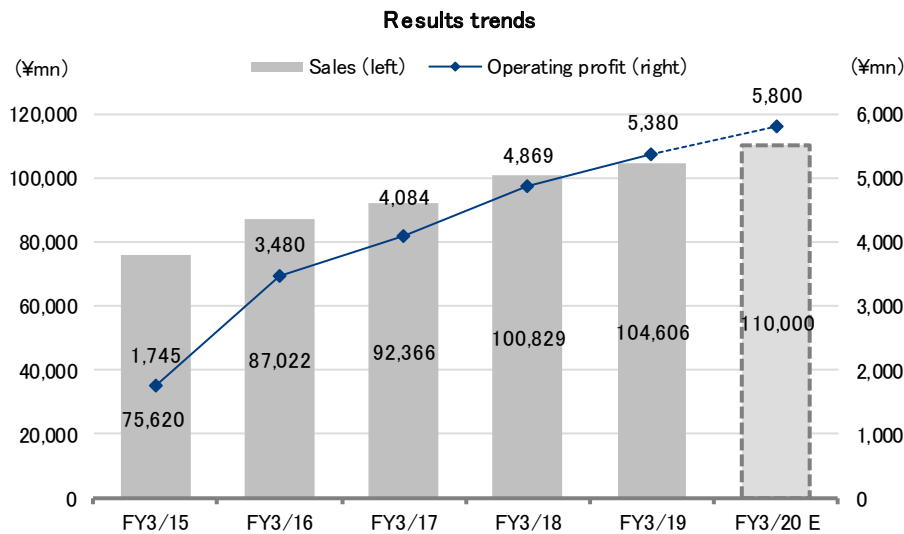
In FY3/19, the Company posted sales of ¥104,606mn (+3.7% YoY) and operating profit of ¥5,380mn (+10.5%). There was a large decline in sales and profit in the Overseas business due to the sale of the hotel resort operating business in Australia, but with the growth of the Solutions business and strong performance in the Construction business, the Company achieved an increase in both sales and profit for the fifth consecutive year. FY3/19 was the final fiscal year of the medium-term business plan 2018. Cumulative sales and profits for the three-year period exceeded the forecast under the plan, and sales saw a 1.2-fold increase compared to FY3/16, while operating profit resulted in 1.5-fold increase. As such, the Company achieved its basic action plan of strengthening its business base. Progress is also being made on the other pillar of the basic action plan, which is pursuing its growth strategy, as the Company worked on transforming its business portfolio, including exiting the overseas hotel resort management business as synergy could not be expected, while starting to develop and operate the MIMARU series of apartment hotels for inbound traveler demand as a new business.

Summary

For FY3/20, the Company is forecasting sales of ¥110,000mn (+5.2% YoY) and an operating profit of ¥5,800mn (+7.8%), looking for an increase in both sales and operating profit for the sixth consecutive year. Although the Company is expecting a decline in sales in the Residential business, it is forecasting continued growth in the Solutions business as well as continued expansion in the Lodging business (MIMARU apartment hotels) which was spun off from the Solutions business. FY3/20 marks the first year of medium-term business plan 2021, which will run through FY3/22. In terms of numerical targets, the plan aims for a 1.3-fold increase from FY3/19 in sales to ¥135,000mn and a 1.5-fold increase in operating profit ¥8,100mn in FY3/22. It is aiming for an equity ratio of 30%, a 1.3-fold increase. Each business is expected to contribute to earnings, but in particular the Lodging business is expected to drive the Company's medium-term growth by capturing lodging demand from overseas travelers coming to Japan.

Key Points

- Mid-tier developer of new condominiums excelling in planning new products and services
- The Company achieved its targets under the previous medium-term business plan and has been transforming its business portfolio. Under the new medium-term business plan, the Company will aim for ¥8,100mn in operating profit in FY3/22
- Apartment hotel MIMARU off to a good start, will likely be a driver of medium-term growth



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

## ■ Company profile

### Developer pursuing business expansion centered on INITIA brand condominiums

#### 1. Company profile and history

Cosmos Initia is a mid-tier developer affiliated with the Daiwa House Industry group, focusing mainly on condominiums and detached housing in the greater Tokyo area and the Kinki region. Specializing in family-oriented condominiums for first-time buyers, Cosmos Initia has a very long track record and has brought a cumulative total of more than 100,000 new condominium units to the market. As the needs of customers have grown more diverse and its partnership with Daiwa House has grown, Cosmos Initia has turned itself into a one-stop shop for a wide variety of housing products and services for the general consumer, including new condominiums and detached housing, retail brokerage services, sales of renovated condominiums, renovation, as well as various after-sale services after the homeowner or tenant moves in. For owners of business-use properties, the Company has also expanded its service menu over the years and now offers a one-stop real estate solutions service, including investment property sales, subleasing of condominiums and office properties, agency services for business-use properties, and real estate consulting. Going forward, Cosmos Initia is looking to continue diversifying its business portfolio away from its past focus on condominium development.

The roots of Cosmos Initia go back to its founding as Japan Recruit Motion Pictures Co., Ltd., a subsidiary of Japan Recruit Center. The Company subsequently switched its business to real estate in 1974. In 1985 the Company changed its Recruit Cosmos Co., Ltd. and was listed on Japan's over-the-counter stock market (now JASDAQ) in 1986. Following its independence due to a management buyout from the Recruit Group in 2005, it changed its name to Cosmos Initia in 2006, the name it still holds today. Not long after that, however, the real estate market crashed as the collapse of Lehman Brothers shook the financial markets and Cosmos Initia fell victim to its heavy debt load. Having become insolvent, the Company went into Business Revitalization ADR proceedings in 2009, where an agreement was reached on business rehabilitation plan. Cosmos Initia got financial support from its creditors but had to sell off its condominium management company to Daiwa House Industry. The business rehabilitation plan was finally completed in 2013 as Cosmos Initia paid off the last of the debt covered by the Business Revitalization ADR agreement. Shortly thereafter Cosmos Initia entered into a capital and business alliance with Daiwa House Industry that made it a subsidiary, and it is currently pursuing its growth strategy as a member of the Daiwa House group. Cosmos Initia's mainstay condominium line that now goes under the INITIA brand name used to go by the name of Cosmo when the Company was a member of the Recruit Group.

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Company profile

History

History	
June 1969	Japan Recruit Motion Pictures Co., Ltd. is founded in Chiyoda-ku, Tokyo
February 1974	Business objective is changed to the real estate business, and the company name changed to Environment Development Co., Ltd.
May 1974	Sales operations for mid- to high-rise housing begin
June 1977	Osaka Branch (now West Japan Branch) is established and begins sales operations for mid- to high-rise housing in the Kinki region
January 1985	Brokerage Department is established
March 1985	Company name is changed to Recruit Cosmos Co., Ltd. Head office is moved to Chuo-ku, Tokyo
July 1986	Real Estate Rental Business begins in earnest
October 1986	Company stock is listed on the over-the-counter market (now the Tokyo Stock Exchange JASDAQ)
March 1987	All stock for Cosmos Life Co., Ltd. (now DAIWA LIFENEXT Co., Ltd.) is acquired, and entry is made to the real estate management business
January 1990	Cosmos More Co., Ltd. (now a consolidated subsidiary) is established to undertake building and repair work
September 1990	Cosmos Australia Pty. Ltd. is established in Australia Overseas hotels and resorts operations begin
July 1993	The head office is moved to Minato-ku, Tokyo
April 1996	Sales operations of single-family homes begins in earnest
October 1998	Cosmos Hotline is established as a point of contact for customers
June 2005	The Company is spun off from the Recruit Group through a management buyout
September 2006	Company name is changed to Cosmos Initia Co., Ltd. Head office is moved to Chiyoda-ku, Tokyo
April 2009	After becoming insolvent amid real estate market downturn, used Business Revitalization ADR (alternative dispute resolution) proceedings to create business rehabilitation plan
July 2009	Three branches in the Tokyo metropolitan area (Chiba Branch/Yokohama Branch/Northern Kanto Branch) are integrated into the head office
September 2009	All stock from Cosmos Life Co., Ltd. is transferred to Daiwa House Industry Co., Ltd.
January 2011	Number of condominiums sold tops 100,000
July 2011	The head office is moved to Minato-ku, Tokyo.
June 2013	Daiwa House Industry Corp. became the largest stockholder of company and joined the Daiwa House Group
October 2014	Cosmos Life Support Co., Ltd. (now a consolidated subsidiary) is established
May 2016	Establishment of mid-term business plan
December 2016	Cosmos Australia Holdings Pty Ltd (now a consolidated subsidiary) is established
October 2017	Cosmos Hotel Management Co., Ltd. (now a consolidated subsidiary) is established
December 2017	Entered into capital and business alliance with WOOC Co., Ltd. to develop business to revitalize vacant space in rental office buildings and other properties
March 2018	All stock from KBRV Resort Operations Pty. Ltd. held by Cosmos Australia Pty. is transferred. Withdraw from overseas hotels and resorts operations

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

## Capital and business alliance with Daiwa House Industry

### 2. Synergies from partnership with Daiwa House Industry

Cosmos Initia has enjoyed the textbook synergies one might expect from its acquisition by Daiwa House in 2013. As a subsidiary of Daiwa House Industry, Cosmos Initia has been able to more easily secure the financing needed to pursue its real estate development business, receiving strong backing from Daiwa House in the form of credit guarantees as well as overall support. And, because Daiwa House Industry makes it a practice to respect the management teams of the companies it acquires, Cosmos Initia has also enjoyed a great deal of autonomy since being acquired, making its own decision about personnel, operations, and even maintaining its stock exchange listing. As this has allowed Cosmos Initia to maintain the continuity in its management team as well as in its branding, which in turn has helped drive the subsequent recovery in sales and earnings. From the perspective of Daiwa House Industry, the acquisition of Cosmos Initia has helped it fill a gap, for even though Daiwa House was already operating in many areas—from detached housing to rental housing, to commercial buildings and construction—prior to the acquisition of Cosmos Initia it did not have much of the presence in the Tokyo area condominium market. With knowledge and experience in the Tokyo, Japan's largest condominium market, Cosmos Initia was a welcome addition to the Daiwa House group that would help it expand its condominium business.

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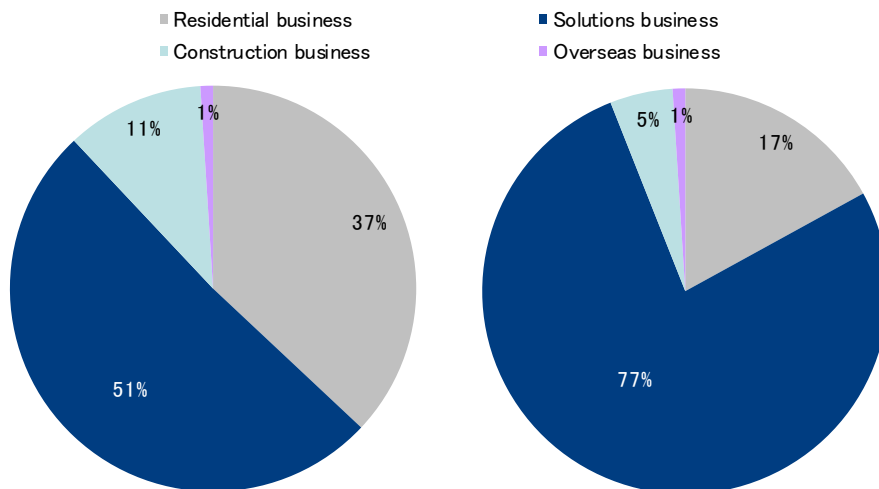
## Business overview

### The two main businesses are the Residential business and the Solutions business

#### 1. The Company's business

Cosmos Initia's primary business is real estate development and sales, but this is broken down further into a Residential business that offer housing products and services for the general consumer and a Solutions business that provides professional services as well as investment real estate and other products to the corporate market. In addition to these two large businesses, Cosmos Initia also has a Construction business and an Overseas business, connected to the sales of product with classification that makes it easy for customers to understand. The Residential business in FY3/19 accounted for 37% of sales and 17% of operating profit, the Solutions business 51% of sales and 77% of operating profit, the Construction business 11% of sales and 5% of operating profit, and the Overseas business 1% of sales and 1% of operating profit. The mainstays of business that the Company develops are the Residential and Solutions businesses, which are primarily managed by the parent company while the Construction and the Overseas businesses are operated by subsidiaries.

Breakdown of sales ratio and operating profit ratio by segment (FY3/19)



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

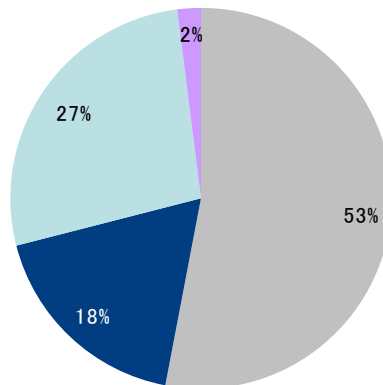
## One-stop shop for housing-related products and services

### 2. Residential business

Cosmos Initia’s Residential business does not follow the traditional split between new homes and pre-owned homes, but rather holds itself out as a one-stop shop for housing-related products and services for the general consumer. Its service menu includes its INITIA series of new condominiums and GRAND FORUM series of new detached housing, its &Renovation series of renovated, pre-owned condominiums, and retail real estate brokerage services. In FY3/19, new condominiums accounted for 53% of segment sales ratio, new detached housing 18%, renovated condominiums 27%, and retail real estate brokerage services 2%. Cosmos Initia is distinguished by its capability to plan and produce new products and services, and its reputation for high-quality, customer-oriented service, including after-sale service.

**Breakdown of net sales for Residential business (FY3/19)**

- New condominiums
- New detached housing
- Renovated, pre-owned condominiums
- Retail real estate brokerage services



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

**New detached housing “GRAND FORUM Seijogakuenmae”**



Source: The Company's medium-term business plan briefing materials

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## Business overview

The new condominiums that account for most of sales in the Residential business go under the INITIA brand name. INITIA condos are aimed at DINKs (Double Income, No Kids) households and families, their target market being first-time buyers in their 30s and 40s. As a long-standing, successful condominium developer with abundant experience and achievements, the Company continuously provides comfortable living spaces, envisioning what customers will want ahead of time and bringing such condominiums to the market. The Company has always excelled in planning new products and services, and aims to provide value exceeding customers' expectations. Such value includes living space designs such as "scenery kitchens" that place the kitchen in the center of an LDK condominium and widening entryways to create "welcome halls," as well as making living spaces more enjoyable and convenient through measures including collaborating with a wide array of other industries. Cosmos Initia's success is evidenced by its long track record that took it over the 100,000-unit mark for new condominiums in 2011 (its 37th year as a developer) and its receipt of the prestigious Good Design awards for 17 years running. In response to changing demographics in recent years, Cosmos Initia has also started developing condominiums for the so-called "active senior" market. Subsidiary Cosmos Life Support Co., Ltd. manages condominiums for active seniors.

Although best known as a condominium developer, Cosmo Initia is also a prolific builder of detached housing, having built more than 4,000 units. Applying the same QIT quality control management system to new detached housing that it developed and uses in the construction of new condominiums, Cosmos Initia has been received high praise for its block designs and the marketability of room designs such as SOLA LIVING, which allows for a brighter and more open living space for second floor housing. When it comes to renovating condominiums, the Company applies the design expertise and skills that it has acquired from years in the new condominium development business and applies it to older condominiums to transform them from the aspect of comfortable living. In the area of residential-use real estate brokerage services, Cosmos Initia also develops new condominium projects and carries out partnerships with renovating condominiums, offering services that make it easier for homeowners to move to a new home by allowing them to stay in their current and complete the sale only after they buy a new home (katte kara nattoku baikyaku) or, alternatively, buys the condominium from the owner and allows them to stay there while looking for a new place to live (suminagara kaitori).

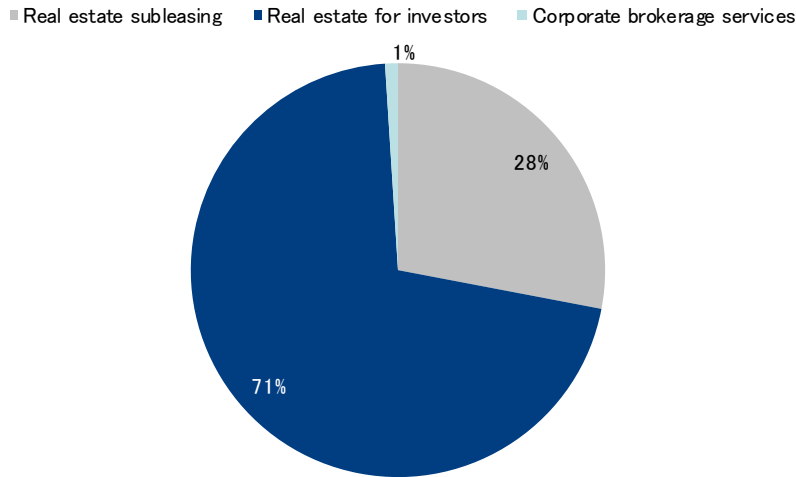
## Provides one-stop solutions for utilizing properties

### 3. Solutions business

The Solutions business is aimed at meeting the needs of owners of investment properties and, with the help of its own and the many professionals in the Daiwa House group, is a one-stop shop for real estate-related solutions services. The service menu includes subleasing of condominiums for rent and office buildings, a real estate brokerage service to handle sales of condominiums, business-use buildings and land, especially the condominiums for rent in the Company's COSMOS REID series and office buildings for rent in the REID-C series that were designed specifically as investment properties. The service menu also includes corporate mediation, such as mediation for properties and land starting with entire condominiums for investment by one party and other business uses, as well as consulting related to real estate. Real estate subleasing in FY3/19 accounts for 28% of sales ratio at the Solutions segment, investment properties 71%, and real estate brokerage 1%.

Business overview

**Solutions business sales ratio (FY3/19)**



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

**Guest room of MIMARU apartment hotel for investors**



Source: The Company's medium-term business plan briefing materials

Cosmos Initia has long been in the property management business, managing the leases of more than 10,000 residential properties as well as a variety of other buildings, including retail store space. In the subleasing of residential properties, the condominium owner leases his property to the Company who in turn subleases it to tenants. This service offers a great deal of convenience to property owners, as it allows them to avoid the troublesome process of finding tenants, signing rental contracts, renewing contracts, and responding to tenant problems, and also has the additional advantage of signing a one-time leasing agreement that guarantees a safe and steady stream of rental income. The subleasing business also works out well for Cosmos Initia by limiting the business risk that goes along with property ownership while remaining in a position to generate a steady stream of revenues and earnings.

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#### Business overview

In the area real estate for investors, Cosmos Initia develops smartly-styled condominiums for rent, office buildings, and commercial properties for sale to investors, and also buys entire old rental condominium complexes and office buildings in central urban areas and other high-demand areas that it can renovate, upgrade, bring up to code, and then resell to investors that are looking to generate steady returns by investing in real estate. Utilizing its expertise, the business of purchasing real estate properties in the several hundred million yen to hundreds of thousands of billion yen, adding property value and then selling them, has become a driver of business growth. Also included under the Solutions segment is the Company's investment property brokerage service, real estate property development consulting service, and architectural design administration and construction management service.

In FY3/19, the Company launched the apartment hotel business as a new business. The apartment hotels are under the MIMARU brand, and are located in urban areas, areas with tourism, and other locations that are easily accessible. In these hotels, families or groups comprising four or more people can live just like they are in their own home. This type of hotel is rare in Japan, but they have been well received by overseas travelers visiting Japan and the business has gotten off to a wonderful start. Demand is expected to grow as the number of overseas travelers increases. The Company also launched the "SELESAGE" series, which allows investors to invest from as little as 10 million yen by dividing the ownership of properties worth billions of yen in good locations in central Tokyo into small portions. Two buildings, located in Daikanyama and Omotesando, have already been completely sold. In addition, the Company invited the world's largest hotel chain "Accor Hotels" and developed "ibis Osaka Umeda," the first new establishment in Japan as the "Ibis" brand, and began operating the rental office "MID POINT Meguro Fudomae" within the "REID-C Meguro-fudomae Building" used to revitalize pre-owned stock. In this way, the Company has been expanding its offerings in the Solutions business, allowing the Company to help customers solve any type of need for any type of property in a one-stop manner. From FY3/20, the Company decided to separate the rapidly growing Lodging business, including the MIMARU series, and make it its own independent segment.

## Scope of Construction business continues to grow

### 4. Construction business

The Construction business is run by Cosmos More Co., Ltd, which builds condominium galleries, handles sales of interior design options for new condominiums, handles repairs and improvements related to office relocations, and builds steel houses and other buildings. The Construction business has been expanding its scope of business, including growing the office renovation business that maximizes office value by pursuing designs against the backdrop of work style reform, and entering the business of designing and constructing a wide range of facilities, including sports facilities, stores, and amusement facilities.

## Exit from the overseas resort hotel management business

### 5. Overseas business

The Overseas business consists of Cosmos Australia Pty Ltd. and seven other subsidiaries. In addition to managing a hotel resort on scenic Fraser Island (a World Heritage Site as the largest sand island in the world), located on the coast of the state of Queensland, Australia, the subsidiaries operate other real estate-related businesses in Australia. The hotel resort management business has been profitable recently, but the lack of synergy with the other businesses and the large impact on results from swings in foreign exchange rates led to the decision to sell off the hotel resort management business in March 2018 as a part of transforming the business portfolio, and to eliminate the Overseas business as a segment as of the end of FY3/19. Concerning the Overseas business going forward, the Company said that as a part of the Residential business it will be working together with the Daiwa House Group on condominium development projects in Australia and on operating serviced apartments in Australia and New Zealand. In FY3/19, the Company started development on two new projects.

## Results trends

### Strong performance by Solutions business drive overall earnings

#### 1. FY3/19 results

For FY3/19, the Company reported sales of ¥104,606mn (+3.7% YoY), operating profit of ¥5,380mn (+10.5%), recurring profit of ¥5,050mn (+15.6%), and net profit attributable to parent company shareholders of ¥4,562mn (+23.5%). There was a large decline in sales and profit in the Overseas business due to the exit from the overseas hotel resort operating business, but with the strong performances in both the mainstay Solutions business and the Construction business, the Company achieved an increase in both sales and profit for the fifth consecutive year. Also, with the posting of ¥505mn of reversal of provisions for loss on exiting the Overseas business as extraordinary profit, net profit attributable to parent company shareholders grew even more than in the previous fiscal year.

#### FY3/19 results

	FY3/18	% of sales	FY3/19	% of sales	% of change
Sales	100,829	100.0	104,606	100.0	3.7
Gross profit margin	19,487	19.3	19,134	18.3	-1.8
SG&A expenses	14,618	14.5	13,754	13.1	-5.9
Operating profit	4,869	4.8	5,380	5.1	10.5
Recurring profit	4,367	4.3	5,050	4.8	15.6
Net profit attributable to parent company shareholders	3,695	3.7	4,562	4.4	23.5

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

#### Results trends

The Residential business reported a decline in sales and an increase in profit as there were sales of only 414 new condominium units (-144 units YoY), and the gross profit margin in new detached homes declined due to the impact of the low-profit lot sales, but there was an increase in sales of new detached housing (+54 units to 109 units) and sales of pre-owned condominiums that had been purchased for resale (+20 units to 234 units), and gross profit margin on new condominium improved. In the Solutions business, there was a large increase in both sales and profit, due to the increase in both the number of units subleased (+638 units to 10,158 units), and the number of investment real estate buildings sold (+4 buildings to 24 buildings), and due to the full-fledged launch of operations of the apartment hotel MIMARU series, along with other factors. This was a milestone year for the Solutions business, highlighted by reaching the 10,000-unit mark in the number of subleased units and the full-fledged launch of the MIMARU series. During FY3/19, the Company opened seven new MIMARU series hotels, bringing the total to eight hotels with a total of 361 rooms. The MIMARU series has gotten off to an extremely good start, with an average occupancy rate of 82.2%, an average room rate of ¥25,000 per night, and average stays of 2.9 days. The Construction business saw large growth in sales and profit thanks to the increase in orders for office renovation work and the improvement in the gross profit margin. On the other hand, the Overseas business posted a significant decline in both sales and profit as a result of the exit from the hotel resort management business in Australia in the first quarter of the fiscal year.

#### FY3/19 results by segment

(¥mn, %)					
Sales (before adjustments)	FY3/18	% of sales	FY3/19	% of sales	% of change
Residential business	39,129	39	38,644	37	-1.2
Solutions business	47,671	47	53,865	51	13.0
Construction business	10,406	10	11,665	11	12.1
Overseas business	4,328	4	923	1	-78.7

Operating profit (before adjustments)	FY3/18	Margin	FY3/19	Margin	% of change
Residential business	1,142	2.9	1,171	3.0	2.5
Solutions business	4,862	10.2	5,329	9.9	9.6
Construction business	71	0.7	366	3.1	415.5
Overseas business	367	8.5	32	3.5	-91.3

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

## Solutions business and Lodging business to drive results

### 2. FY3/20 forecast

For FY3/20, the Company is forecasting sales of ¥110,000mn (+5.2% YoY), operating profit of ¥5,800mn (+7.8%), recurring profit of ¥5,200mn (+3.0%), and net profit attributable to parent company shareholders of ¥4,300mn (-5.7%), as the Company is forecasting an increase in both sales and operating profit for the sixth consecutive year. The forecasted decline in net profit attributable to parent company shareholders is due to the non-recurrence of the reversal of provisions for loss on exiting the Overseas business that arose in FY3/19. With the exit from the overseas hotel resort business in 2018, the Overseas business will be eliminated from FY3/20, and the housing development business and other business activities in Australia will be included in the Residential business. In addition, because the Lodging business has grown in scale, it will be spun off from the Solutions business and reported as an independent segment. The name of the property subleasing subsegment was changed to real estate rentals operation and management to better reflect its actual business activities.

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## Results trends

## FY3/20 forecast

	FY3/19	% of sales	FY3/20 E	% of sales	% of change
Sales	104,606	100.0	110,000	100.0	5.2
Gross profit margin	19,134	18.3	19,570	17.8	2.3
SG&A expenses	13,754	13.1	13,770	12.5	0.1
Operating profit	5,380	5.1	5,800	5.3	7.8
Recurring profit	5,050	4.8	5,200	4.7	3.0
Net profit attributable to parent company shareholders	4,562	4.4	4,300	3.9	-5.7

(¥mn, %)

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

In the Residential business, the Company is forecasting a decline in both sales and profit, as it is looking for sales of renovated, pre-owned condominiums to total 306 units (+72 units YoY), but expects sales of newly-built condominiums to total 346 units (-68 units YoY) and a large decline in sales of newly-built detached homes (-41 lots YoY to 68 lots). On the other hand, the Company is expecting an improvement in profit margin. In the Solutions business, the Company expects sales of 21 investment real estate buildings (-2 buildings YoY) and forecasts 10,450 units to be sublet in real estate rentals operation and management (+292 units YoY), and therefore expects both sales and profit to increase again. In the Lodging business, the Company is forecasting an increase in sales and profit on the rise in management and sales of the MIMARU series apartment hotels, but the Company expects the growth in operating profit to remain in the single digits due to the increase in business start-up expenses and other factors.

## FY3/20 results forecasts by segment

Sales (before adjustments)	FY3/19	% of sales	FY3/20 E	% of sales	% of change
Residential business	38,762	37	37,700	34	-2.7
Solutions business	43,744	42	46,500	42	6.3
Lodging business	10,120	10	13,600	12	34.4
Construction business	11,665	11	13,100	12	12.3

Operating profit (before adjustments)	FY3/19	Margin	FY3/20 E	Margin	% of change
Residential business	1,176	3.0	1,160	3.1	-1.4
Solutions business	3,457	7.9	4,010	8.6	16.0
Lodging business	1,871	18.5	1,980	14.6	5.8
Construction business	366	3.1	310	2.4	-15.3

(¥mn, %)

\*The Overseas business is included until FY3/19 due to the exit from the business. Does not include the Other business.

\*FY3/19 values have been retroactively revised to reflect the segment changes.

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

## ■ Medium-term business plan

### Achievements under medium-term business plan 2018

#### 1. Review of previous medium-term business plan

Aiming to create a better urban living environment, the basic action plan of the medium-term business plan 2018 calls for strengthening the business base and pursuing the growth strategy. Concerning the latter in particular, the plan outlines the sub-themes of transforming the business portfolio and developing products and services addressing diversifying needs. In the Residential business, the action plan calls for 1) more new condominium development projects, increasing renovation of pre-owned properties, and promoting renovation work, and promoting more after-sale services to create a broad service menu; 2) evolving and expanding housing aimed at the active senior market and after-sale services for this market; and 3) working together with companies in the Daiwa House Group on reconstruction and redevelopment projects. In the Solutions business, the plan calls for 1) creating a one-stop solutions service with a professional consulting group to serve the needs of business-use property owners; and 2) developing investment properties and increasing inventories of older properties for revitalization. Elsewhere, in the Construction business, the plan calls for growing existing businesses and bolstering the large-scale repair business. In the Overseas business, the plan calls for continuing to work together with the Daiwa House group on housing development projects in Australia. In terms of new businesses, the plan calls for developing a new business to meet the growing demand for lodging by overseas travelers visiting Japan.

The medium-term business plan 2018 is finished, and the Company has achieved its goal of strengthening the business base, as evidenced by the fact that it has achieved growth in sales and operating profit for five consecutive years, and particularly by the fact that FY3/19 sales and operating profit were higher at a 1.2-fold and 1.5 fold increase, respectively, than in FY3/16. The Company's target management indicators for FY3/19, the final year of the business plan, were sales of ¥105,000mn, operating profit of ¥5,000mn, net interest-bearing debt of ¥43,000mn, net assets of ¥29,000mn, and a net D/E ratio of 1.5x. The FY3/19 results generally showed good progress with respect to these targets, with actual sales of ¥104,606mn, operating profit of ¥5,380mn, net interest-bearing debt of ¥50,845, net assets of ¥29,839mn, and a net D/E ratio of 1.7x. Above all, operating profit grew at a rapid pace, reaching 7.6% above the initial target, and this allowed the Company to continue to increase its dividend. In this respect, the Company has made considerable progress on strengthening its business base. Significant progress also appears to have been made with regard to transforming the business portfolio in pursuing the growth strategy, as amid the temporary contraction of the Residential business centered on newly-built condominiums due to the impact of the external environment, the Company sold its overseas hotel resort businesses that did not possess synergies, thereby winding down the Overseas business, while the Solutions business (including the new Lodging business) expanded.

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Medium-term business plan

**Business portfolio transformation (FY3/16-FY3/19)**

(¥mn, %)

Sales (before adjustments)	FY3/16	% of sales	FY3/19	% of sales	% of change
Residential business	52,711	60	38,644	37	-26.7
Solutions business	22,036	25	53,865	51	144.4
Construction business	9,611	11	11,665	11	21.4
Overseas business	3,726	4	923	1	-75.2

Operating profit (before adjustments)	FY3/16	Margin	FY3/19	Margin	% of change
Residential business	2,936	5.6	1,171	3.0	-60.1
Solutions business	1,384	6.3	5,329	9.9	285.0
Construction business	333	3.5	366	3.1	9.9
Overseas business	176	4.7	32	3.5	-81.8

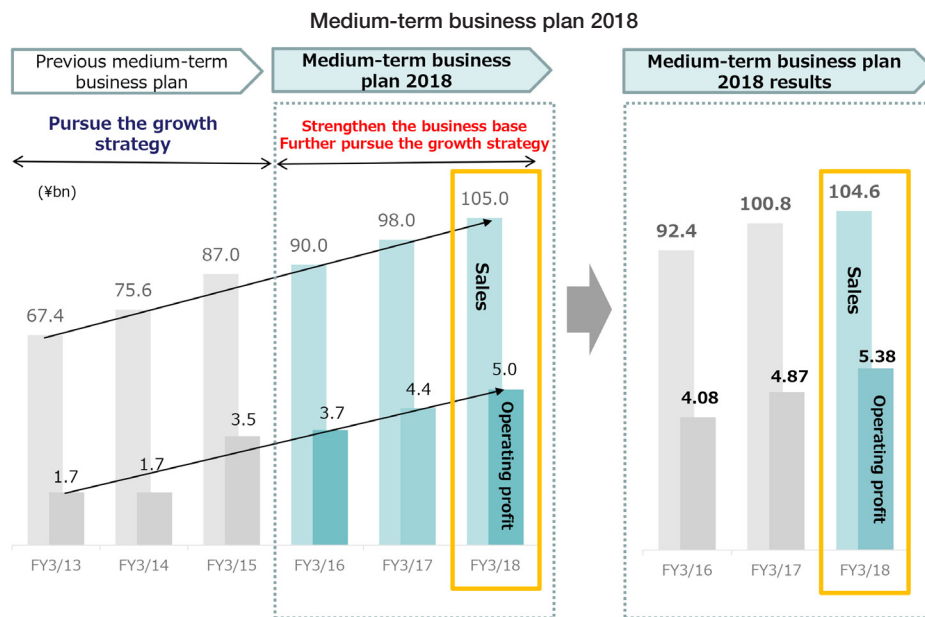
\* The Company sold the overseas hotel resort management business in FY3/19. The sales ratios exclude eliminations of intra-company transactions.

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

With respect to the development of products and services addressing diversifying needs, in the Residential business, the Company was able to bolster the brands of both newly-built condominiums and both the INITIA and GRAND FORUM brand detached housing series. In condominiums targeting active seniors, these condominiums match well with regional redevelopment plans, and the Company has tentatively decided to move forward on its sixth project after getting things starting with the GRAND COSMOS Musashiurawa condominium complex completed in 2016. In renovations of pre-owned condominiums, the Company increased the business volume by strengthening the services and product planning of the &Renovation series, and the INITIA line has won praise from customers for being easy to picture because renovation gives it a look on par with newly built INITIA condominiums and there are synergies with its new condominium construction operations, leading to efficiency gains in both construction and design. In the Solutions business, in investment real estate, the Company newly-developed rental condominiums and office buildings as well as added value to pre-owned stock of rental condominiums and office buildings, and continued developing each brand. FY3/19 sales totaled ¥28,500mn (more than 7x the level in FY3/16), as this has grown to become a mainstay business. In consulting, rental management, and sales brokerage services, the Company provides one-stop services, and the number of housing units the Company manages surpassed the 10,000-unit mark. Elsewhere, in the Construction business, there was steady performance for office space design and construction supporting work style reform, for which demand is growing in recent years. In the Overseas business, the Company completed the sale of the hotel resort management business, while starting two new housing development projects in Sydney.



Medium-term business plan



Source: The Company's results briefing materials

## New mission: “Next GOOD”

### 2. New mission and medium/long-term business strategy

Starting from FY3/20, the Company has formulated a new mission taking a fresh view of customers and the future of society, and has also created a medium/long-term business strategy aimed at achieving this new mission. The mission is to realize the six “Nexts” (next peace of mind, next comfort, next sustainable, next original, next environment, and the next fair and equal) centered on CSV\*1, based on the slogan of “To bring the Next GOOD to customers and to society, and to use ideas one step ahead to create value that is one step ahead.” The business domain is “Urban environment production,” and under the medium/long-term business strategy the Company will create social value through applying CSV in all business activities and through management that is conscious of SDGs\*2 and ESG\*3, thereby creating urban environments that address social changes and diversifying needs, and by doing so create and innovate businesses, and enhance shareholder value by further strengthening the financial base and enhancing shareholder returns. It is a policy aimed at further leaps and new stages.

\*1 CSV (Creating Shared Value): A differentiation strategy aimed at creating sustainable growth by using the strength of a company to address society problems; said to be an extension of CSR (Corporate Social Responsibility).

\*2 SDGs (Sustainable Development Goals): The SDGs were unanimously adopted at the 2015 U.N. Summit, and comprise 17 goals for the international community, including “No Poverty,” “Decent Work” and “Climate Action.”

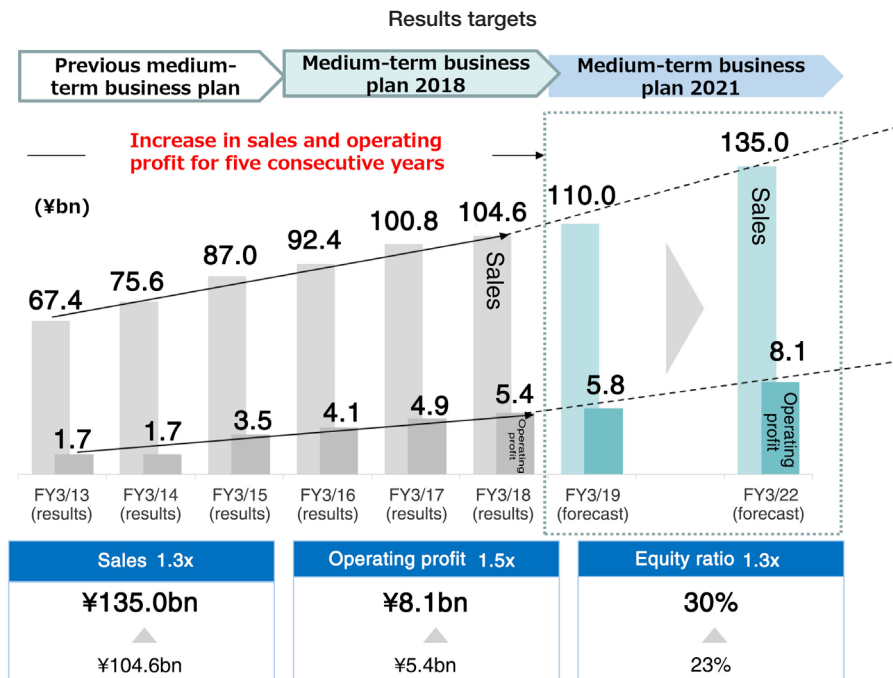
\*3 ESG (Environment, Social, Governance): The three elements that companies and institutional investors should consider in order to contribute to the formation of a sustainable society.

## Aiming for operating profit of ¥8,100mn under medium-term business plan 2021

### 3. New medium-term business plan

#### (1) Results targets

Based on the medium/long-term business policy, the Company is positioning the new medium-term business plan 2021 as the first step towards a new stage, and plans to bolster investment and strategies targeting further success. In terms of numerical targets, the Company is aiming for FY3/22 sales of ¥135,000mn, or a 1.3-fold increase than in FY3/19, along with a 1.5-fold increase in operating profit to ¥8,100mn, as well as a 30% equity ratio, which would be 1.3x the level in FY3/19.



Source: The Company's medium-term business plan briefing materials

## Medium-term business plan

**(2) Medium-term business policy**

In line with the announcement of the medium-term business plan, the Company indicated its initiatives in its medium/long-term business policy. The Company will look to create social value, assume the challenge of business creation and innovation, and increase shareholder value. First, with regard to the creation of social value, the company will further develop CSV which it has been pursuing up until now, and by practicing CSV in all management activities, it will execute management with an awareness of ESG and SDGs. Next, with regard to the challenge of business creation and innovation, in response to the societal changes surrounding the Company's business domains, including the increase in single-person households and seniors, the diversification of working styles and employment, the increase in foreigners visiting Japan and foreigners living in Japan, changes in social infrastructure due to technological innovation, the expansion of the sharing economy, the growth of leisure and entertainment, and rising interest in health and beauty, the Company wants to carry out each strategy, including business, investment, and organizational and personnel strategies, in an integrated manner, and create urban environments that address the changes in society and the diversification of needs. In each strategy, as a business strategy, the Company plans to create new businesses following the apartment hotel business and expand the business area, expand products and services developed in existing business areas to peripheral business areas, revitalize and utilize pre-owned stock and proactively develop the management business. The investment strategy will be to concentrate resources on R&D that promotes the incorporation of information and communication technology (ICT), the creation of new businesses including M&A, and the growth and expansion of existing businesses. In the organization and personnel strategy, the Company will strengthen its unique work style innovation ("WSI"), and aim to boost creativity and productivity immensely. The plan is to realize growth by creating and innovating business. Finally, by further strengthening the financial base along with expanding business and making aggressive investments, the Company intends to enhance shareholder returns, including by continuously increasing per share dividends, as it strives to increase shareholder value.

\* WSI (Work Style Innovation): The Company's unique work style reform initiative. In a comparison of before WSI to after (FY3/19 to FY3/15), operating income increased by 208%, overtime hours decreased by 42%, holiday work attendance decreased by 99%, and paid leave usage increased by 44%. In FY3/19, the Company promoted the company-wide use of remote work and also expanded support for balancing work with childcare and family care.

**Targets and financial base**

	FY3/19	FY3/22 E
Equity ratio	23%	30%
Net interest-bearing debt	¥50.8bn	¥61.0bn
Net D/E ratio	1.7x	1.4x

Source: Prepared by FISCO from the Company's medium-term business plan briefing materials

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Medium-term business plan

**(3) Results targets and strategies by segment****a) Residential business**

In the Residential business, the Company is dividing the business into new condominium development, renovation of pre-owned condominiums, and retail brokerage services, and will aim to increase profitability by offering customers a broad lineup of properties and services, and by providing a one-stop service spanning across the sub-segments. In new condominium development, with new developments generally on the decline the Company is looking to capture market share by focusing on locations for condominium and single-family home developments where convenience is a major selling point and further differentiating itself by creating high value-added homes with spatial designs that provide plenty of living space and are highly functional, and by providing products and services for people living alone and DINKs households in the Tokyo metropolitan area, and otherwise developing homes that are one step ahead of societal changes and diversifying needs. In the area of condominiums for active seniors, in which the first project was a success, the Company will continue to address the diversifying needs of active seniors in key cities across Japan, and plans to offer property management and other services. In terms of renovated condominiums, the Company will be buying older condominium properties and renovating them to give the interiors the same spatial designs used in new condominiums. The Company is also looking to expand its one-stop service that sets up retail brokerage services and renovation construction with the help of its RENONAVI website. In addition to increasing the Company's database of information on renovated condominiums on the market, its RENONAVI website provides an analysis of each individual property based on its proprietary housing diagnostic system. The Company is also looking to build up its after-sale service menu, such as its Sugoshikata Concierge proposal-type support service.

As Japan's population ages we can expect to see a sharp increase in the number of healthy and active seniors. However, when most people think about senior-oriented business they wrongly jump to the conclusion that this refers to nursing care and similar businesses, and very few think of businesses that are aimed healthy and active seniors. The Company's GRAND COSMOS series of active senior-oriented condominiums is attempting to create demand from such active seniors. The GRAND COSMOS series are new condominiums designed for active seniors, with features aimed specifically at reducing the burden of housework and physically-demanding tasks. However, unlike serviced units in retirement homes or assisted living facilities, GRAND COSMOS condominiums maintain the value of a property in which the residents can live as they please. What distinguishes these condominiums from the average condominium are the various support services (provided by subsidiary Cosmos Life Support) that are readily available to residents to handle medical emergencies, earthquakes, etc., as well as services aimed at helping residents stay in good health and providing them peace of mind. Going forward, the Company is looking to develop this type of active senior-oriented condominiums in government designated cities and cities with at least 400,000 residents and more than 500,000, selecting locations within those cities that are convenient from the perspective of everyday living (shopping, hobbies, medical care, travels, etc.). In this venture the Company plans to work together with Daiwa House Industry and fellow Daiwa House Group member Fujita Corporation in redevelopment and rebuilding. Elsewhere, overseas, the Company plans to actively work together with the Daiwa House Group in Australia and New Zealand, including developing condominiums in Sydney, and also participating in a serviced apartment management business.

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## Medium-term business plan

**b) Solutions business**

The Solutions business provides one-stop solutions covering everything from the initial property purchase, to management, to sales. At the same time, the Company is also working to strengthen synergies among the various sub-segments under the Solutions segment and increase operational efficiency. Investment real estate development is a flow business, and in this sphere the Company is not only diversifying its product offering, it is also revitalizing and bolstering the brand value of its stock of pre-owned investment properties. In developing investment properties that address the changes in society and diversifying needs, the Company has developed MIMARU (an independent segment from FY3/20) apartment hotels aimed at meeting the lodging needs of the growing number of foreign tourists visiting Japan, along with joint investment-type real estate “SELESAGE” and the MIDPOINT rental office. The Company plans to go further and continue to develop products and services creating higher property value. In terms of real estate rental management, which is a stock business, the Company is looking to aggressively extend its reach from residential properties to office buildings, increase the number of units and the square feet under management, and also increase operational efficiency. On the service side, in its real estate consulting business, the Company is working to expand its solutions business that draws on its extensive network, and plans to expand its consulting offerings, including using VALUE AI, a building investment property consulting service that uses AI, and make progress with its one-stop services.

**c) Lodging business**

Drawing upon its expertise in condominium development and management, the Company has created the new MIMARU series of comfortable apartment hotels (complete with hotel management services) and will continue to sell them to investors. This represents the combination of both a flow business (development) and a stock business (management). The MIMARU hotels are distinguished by 1) their convenient locations with easy access to urban areas and sightseeing spots in areas close to major terminal stations in Tokyo, Osaka, and Kyoto; 2) harmonious designs that evoke Japanese culture and are relatively small in size, with roughly 40 guest rooms each having an average size of 40 square meters; 3) ensuring space for bedroom and living/dining rooms in all units, as well as a mini-kitchen, cooking utensils, and dining-ware, with laundry rooms in common areas, all of which allow guests to live like they are in their own home; and 4) a product mix envisioning intermediate or extended stays as a family, which is rare in Japan, and pricing per room at approximately ¥30,000 per night. As a result, MIMARU hotels have already become popular, as evidenced by their being ranked highly on the Trip Advisor website (as of May 2019).

The main customers for these rooms are expected to be families on vacation from overseas (primarily from Asian countries), so significant demand is expected. With rooms large enough to comfortably accommodate a family of four or more people, the cost of a night's stay per person comes down to a level that few hotels can match in Japan, so MIMARU apartment hotels will have little competition. Vacation rentals can be seen as a rival, but the types of travelers and their motivations are quite different, and MIMARU offers travelers unmatched safety, peace of mind, and convenience. MIMARU is also superior to city hotels in terms of the number of people that can stay in a room and the cost per person. Also, because MIMARU apartment hotels are a new style of accommodations that promises to appeal to a growing target market, there is an additional advantage of being one of the early movers in the market. Revenues from MIMARU apartment hotels will come first from the sale after development and then from the hotel management contracts after the sale has been made. The popularity of this type of hotel is expected to result in relatively high sales prices. The Company is targeting having 1,500 rooms developed and under management by FY3/22, but as of April 30, 2019, the Company has already developed 1,237 rooms in 25 properties.

## Medium-term business plan

**d) Construction business**

In the Construction business, the Company is looking to expand its service menu for residential properties and office buildings, and increase orders for both new construction and repair work on investment properties. The Company is aggressively looking to grow this business, as it is active not only in office space, but is also strengthening its efforts to design and construct offices targeting work style reform, as well as work on sports facilities with futsal courts and clubhouses, along with retail stores and amusement facilities.

**Business portfolio transformation (FY3/19 → FY3/22)**

(¥mn, %)					
Sales (before adjustments)	FY3/19	% of sales	FY3/22 E	% of sales	% of change
Residential business	38,762	37	50,000	37	29.0
Solutions business	43,744	42	49,000	36	12.0
Lodging business	10,120	10	22,000	16	117.4
Construction business	11,665	11	15,000	11	28.6

Operating profit (before adjustments)	FY3/19	Margin	FY3/22 E	Margin	% of change
Residential business	1,176	3.0	2,600	5.2	121.1
Solutions business	3,457	7.9	4,200	8.6	21.5
Lodging business	1,871	18.5	2,800	12.7	49.7
Construction business	366	3.1	500	3.3	36.6

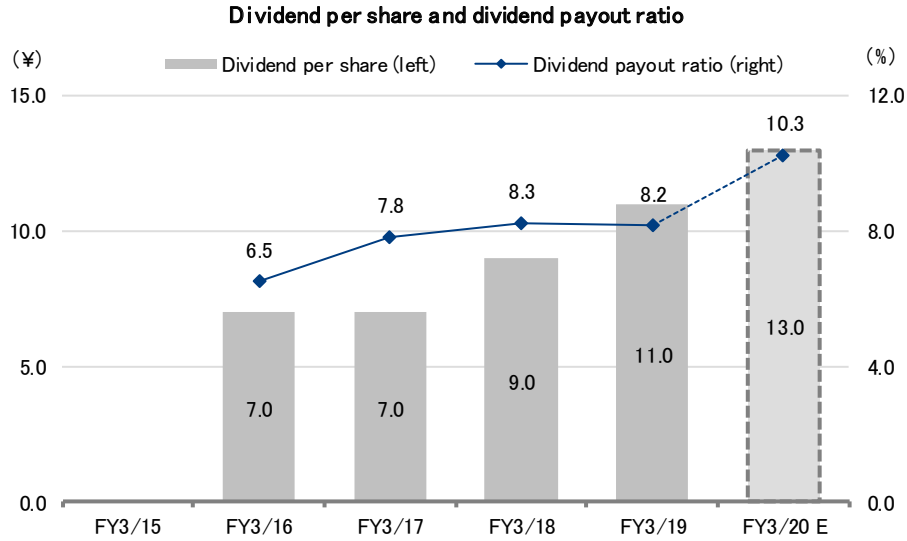
\*Overseas business up until FY3/19 due to the exit from the business. Does not include the Other businesses.

Source: Prepared by FISCO from the Company's financial results and medium-term business plan briefing materials

## Shareholder return policy

The Company places the highest priority on increasing its enterprise value and distributing profits to shareholders, and for its dividend policy, will strive to maintain a stable dividend that both shares profits with shareholders and assures the internal reserves needed to sustain growth. Although its articles of incorporation allow the board of directors to approve the payment of an interim dividend, the Company's dividend policy at this time calls for paying a dividend once a year at the end of the fiscal year. As the Company initially announced, it plans to pay a year-end dividend of ¥11 per share for FY3/19. Based on its earnings forecast for FY3/20, the Company expects to pay a period-end dividend of ¥13 per share, an increase of ¥2 over FY2/19. The Company does not have a special benefit program for shareholders.

Shareholder return policy



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

## Information security

In the course of its business the Company comes into the possession of personal information of buyers and prospective buyers of new condominiums and detached housing and, as a result, is subject to the Protection of Personal Information Act. In keeping with the Act, the Company has taken all appropriate steps to guard the personnel information in its possession, including establishing a privacy policy and procedures and rules for the handling of personal information. It is also working to fortify its information management structure across the company as a whole, including employee training and the installation of secure entry/exit systems for all offices.



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