

Cosmos Initia Co., Ltd.

8844

TSE JASDAQ

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*This is an English translation of a report issued on July 13, 2020.

Summary

Although there are concerns about the impact of the COVID-19 outbreak in the short term, no changes to the medium- to long-term management policy

1. Expanding business domains from being a condominium developer

Cosmos Initia <8844> (hereafter, also “the Company”) is a mid-tier developer operating mainly in the Metropolitan Tokyo area and in the Kinki region. Its businesses include the development and sales of newly-built condominiums and investment real estate, and the Accommodation business. The Company was found in 1969 as a subsidiary of Japan Recruit Center (now Recruit Holdings Co., Ltd. <6098>) and it started a business of selling newly-built condominiums. 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 selling of real estate for investors as well as rental management, while the Company is also engaged in the Accommodation business and the Construction business. In FY3/20, the Residential business accounted for 34% of sales, the Solutions business 43%, the Accommodation business 11%, and the Construction business 12%.

2. Strengths include planning capabilities for product and services

In the Residential business, the Company is developing various brands*, including INITIA newly-built condominiums, INITIA FORUM newly-built single-family houses (formerly: GRAND FORUM), and INITIA & Renovation renovated condominiums (formerly: &Renovation). For some time, it has had an excellent reputation for its planning capabilities for new products and services and for developing businesses that are strongly “customer” orientated, such as for its after-sales services. The Solutions business mainly involves sales of real estate for investors, such as investment condominiums and office buildings; real estate rental operations and management for the subleasing of condominiums, office buildings, and other properties; and real estate brokerage and other services, including real estate brokerage services and development consulting. In the Accommodation business, it develop and operate for APARTMENT HOTEL MIMARU, which are long stay-type hotels. The Construction business mainly involves repairs and improvements for office relocations, the building of condominiums galleries, and sales of interior design options. A feature of each of these businesses is that they are provided by the Group as one-stop services.

* From the spring of 2020, the Company integrated the product and service brands sold in the Residential business into INITIA.

Summary

3. In FY3/20, the Solutions business performed strongly

In the FY3/20 results, sales were ¥110,559mn (+5.7% year-on-year (YoY) and operating profit was ¥6,010mn (+11.7%). These results were also above the initial forecasts, sales by ¥559mn and operating profit by ¥210mn. The Solutions business performed particularly well, with sales and operating profit increasing for the sixth consecutive period and operating profit rising by double digits. In the Solutions business, it appears that the joint investment-type real estate SELESAGE, which is a small-lot investment product, is proving popular. However, financial costs rose due to the increase in borrowing from the progress made in purchases, and therefore recurring profit increased only by a single digit. The FY3/21 results outlook deteriorated from the start of the year following the global impact of the COVID-19 spread, leading to a reversal of deferred tax assets, and there was also a decline as a reaction to the recording of extraordinary profit in the previous fiscal period. As a result, net profit attributable to parent company shareholders decreased.

4. It is anticipated that the COVID-19 outbreak will have a major impact in the short term

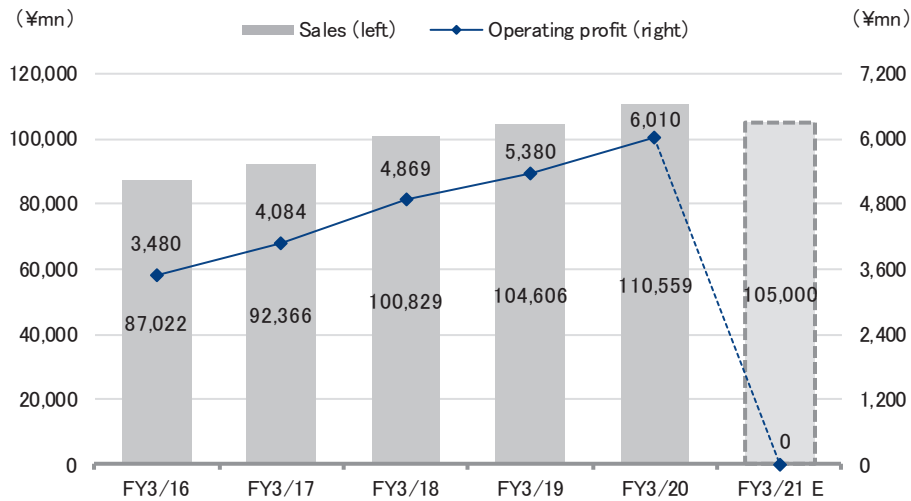
For the FY3/21 results, the Company is forecast sales of ¥105,000mn (-5.0% YoY) and operating profit of ¥0mn (-100.0%). It also expects to record a recurring loss and net loss attributable to parent company shareholders, and business conditions appear extremely severe. In terms of the impact of the COVID-19 outbreak, the Company is assuming that the crisis will not completely settle down until September 2020 and that a gradual recovery will occur from October onwards, and that the business environment will return to something similar to before the COVID-19 outbreak by the end of the period. Therefore, it expects self-restraint for sales activities mainly in the 1Q and the decline in the profitability of some delivered properties. However, the impact will be particularly great in the Accommodation business, and it is thought that the effect of the decline in the hotels' occupancy rates will persist over the long term. For the results outlook for the future, there are some aspects that are unclear, but it seems that in the medium- to long-term, there will be no change to the trends of the declining birthrate and aging population and the rise in the number of foreign visitors to Japan. Against this backdrop, it is considered that the Company will not make any major changes to strategy for its medium- to long-term management policy.

Key Points

- A mid-tier developer whose strengths include planning capabilities for and the quality of its products and services
- The innovative products, including joint investment-type real estate, continue to perform strongly
- Expects to struggle in the short term due to the impact of the COVID-19 outbreak, but no changes to the medium- to long-term management policy

Summary

Results trends



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

Company profile

Expanding its businesses, from developing real estate to utilizing real estate

1. Company profile and history

Cosmos Initia is a mid-tier developer affiliated with the Daiwa House Group. 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. The Company's mainstay condominiums brand is INITIA, while during the Recruit Cosmos period, COSMOS was used. 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 single-family houses, sales of renovated condominiums, renovation, retail brokerage services, as well as various after-sale services after the homeowner or tenant moves in. For owners of business-use properties, the Company currently offers a one-stop real estate solutions service, including for investment property sales, subleasing of condominiums and office properties, brokerage services for business-use properties, and real estate consulting. In this way, it is greatly expanding its business portfolio away from its past focus on condominium development.

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Company profile

The roots of Cosmos Initia go back to its founding in 1969 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. But in this situation, the COVID-19 pandemic has occurred, the impact of which is certainly not small. However, while a review of short- to medium-term goals and strategy may be necessary, it seems that there will be no major changes to the management policy that the Company is considering for the medium- to long-term.

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
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
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
May 2019	Establishment of medium-term business plan 2021

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

Leveraging synergies from the alliance with Daiwa House Industry

2. Capital and business alliance 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 single-family houses 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 is helping to expand and add momentum to its condominium business.

Business overview

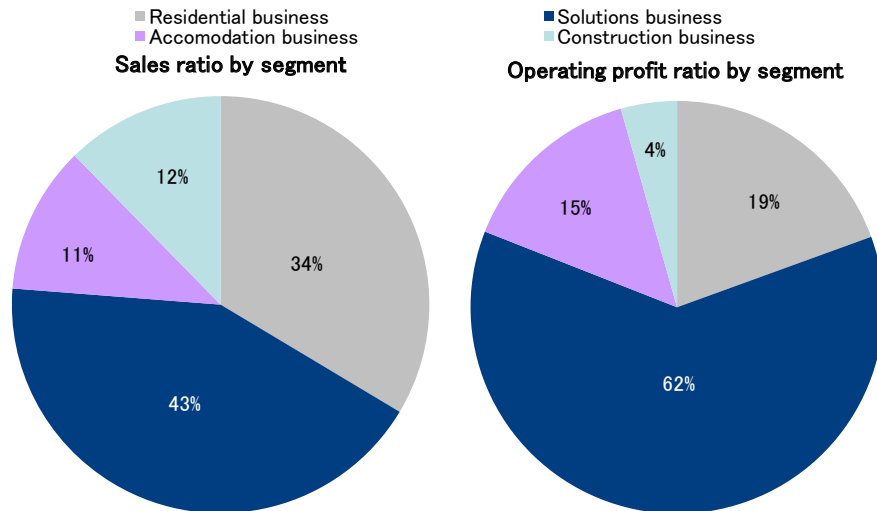
The main businesses are the Residential business and the Solutions business

1. The Company's businesses

Cosmos Initia's primary business is real estate development and sales, but this is broken down further into a Residential business that offers housing products and services for the general consumer and a Solutions business that provides professional services as well as real estate for investors and other products to the corporate market. It also conducts the Accommodation business and the Construction business, for business classifications that can be said to be easier for customers, business partners, and investors to understand. The Residential business in FY3/20 accounted for 34% of sales and 19% of operating profit, the Solutions business 43% of sales and 62% of operating profit, the Accommodation business 11% of sales and 15% of operating profit, and the Construction business 12% of sales and 4% 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 Accommodation business and the Construction are operated by subsidiaries.

Business overview

Breakdown of sales ratio and operating profit ratio by segment (FY3/20)



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

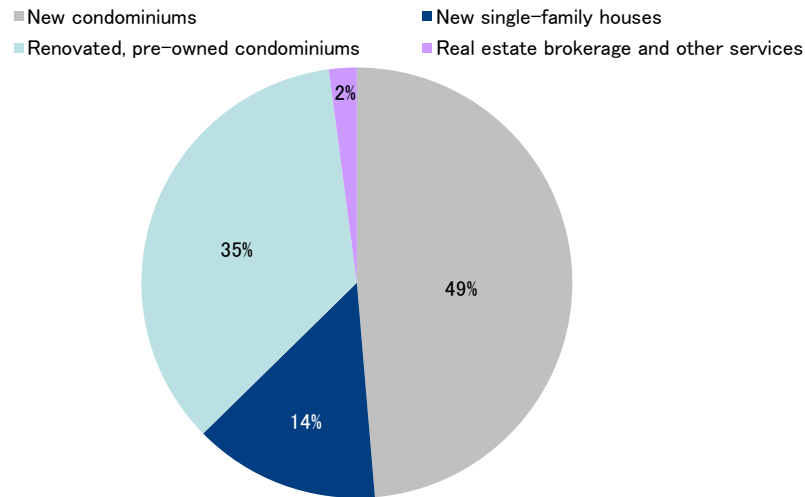
A strength is the quality of its services not bound by the conventional framework of new homes and pre-owned homes

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 menu of products and services include INITIA newly-built condominiums, INITIA FORUM newly-built single-family houses, INITIA & Renovation renovated condominiums, and retail real estate brokerage. In FY3/20, new condominiums accounted for 49% of segment sales ratio, new single-family houses 14%, renovated condominiums 35%, and retail real estate brokerage services 2%. Features of the Company include that it is strongly customer-orientated and the high quality of its services, such as for its planning capabilities to create new products and services, in addition to its after-sales services that have had an excellent reputation since previously. It has integrated the brands of the products and services in the Residential business into INITIA, and it has changed the brand name and the logo to INITIA since the spring of 2020 sales of newly-built residences (new condominiums, new condominiums for active seniors, new town houses, and new single-family houses) and in the Renovation business (renovated condominiums and renovation and reform work).

Business overview

Breakdown of net sales for Residential business (FY3/20)



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

New condominiums "INITIA CHUO MINATO"



Source: The Company's results briefing materials

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. In particular, its strength is in planning new products and services, including high quality 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." In addition to such spatial quality, the Company is thoroughly committed to quality, from its construction system through QIT, its proprietary quality management system, through to various support services. In such ways, it aims to provide value exceeding customers' expectations by providing living spaces that are more enjoyable, easier to live in, and more convenient. 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 18 years running.

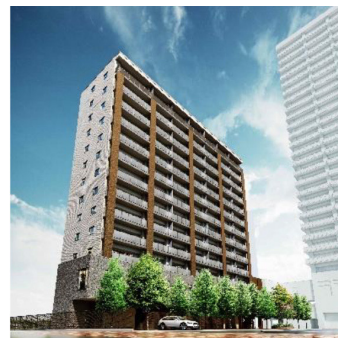
Business overview

However, as Japan’s population ages we can expect to see a sharp increase in the number of healthy and active seniors. Unfortunately, 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 is stepping into this gap and attempting to address the needs of the market represented by active seniors market by designing condominiums specifically for this market. The Company’s INITIA GRAND (formerly: GRAND COSMO) are 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, a feature of INITIA GRAND is that they maintain their value as property in which the residents can live as they please.

Moreover, unlike in normal condominiums, the Group provides a variety of services and support in its condominiums for senior citizens, such as the various events conducted by subsidiary Cosmos Life Support Co., Ltd., and others, and living-support activities that contribute to the residents’ health and peace of mind. In government-designated cities and cities with populations of at least 400,000 people and above 500,000 people, the Company is mainly selecting locations like sites of urban redevelopment projects that are highly convenient for living, like for shopping, hobbies, travel, and medical services, and it is strengthening measures for business participation in collaboration with Daiwa House Industry and Fujita Corporation, which is also a member of the Daiwa House Group. It currently has provisionally confirmed that it will move forward on the seventh project and has started sales for two projects in Hokkaido. It is also progressing multiple urban redevelopment projects, including in Fukui Prefecture and Fukuoka Prefecture.

Although best known as a condominium developer, Cosmo Initia is also a prolific builder of single-family houses, having built more than 4,300 sections. Applying the unique QIT quality control management system to new single-family houses, 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 baiyaku) or, alternatively, buys the condominium from the owner and allows them to stay there while looking for a new place to live (suminagara kaitori).

**Exterior views of condominiums for active seniors
 INITIA GRAN Sapporo EAST (left) and INITIA Sapporo Naebo (right)**



Source: The Company’s results briefing materials

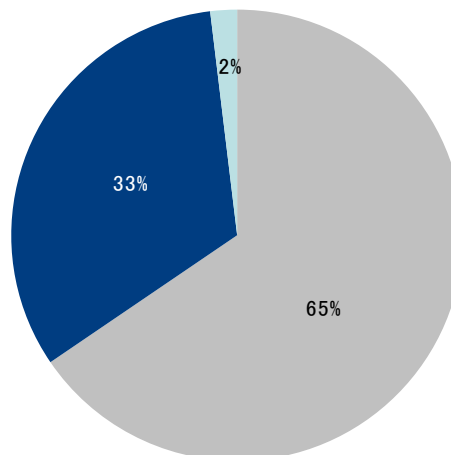
Provides one-stop solutions for utilizing properties

3. Solutions business

In the Solutions business, the Company provides one-stop solution services for owners of investment real estate to utilize their real estate, through an alliance between the Company's Group and the Daiwa House Group. The products and services menu includes real estate for investors for sales, including COSMOS REID and COSMOS GRACIA lease condominiums and REID-C lease office buildings; real estate rentals operation and management for condominiums and office buildings; land and building brokerage services, such as for investment in entire buildings and business land; and real estate brokerage and other services, including consulting on real estate. In the percentages of total sales in the Solutions business (FY3/20), real estate for investors provided 65%, real estate rentals operation and management 33%, and real estate brokerage and other services 2%.

Solutions business sales ratio (FY3/20)

- Real estate for investors
- Real estate rentals operation and management
- Real estate brokerage and other services



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

Real estate for investors "COSMOS GRACIA Sumida Oshiage"



Source: The Company's results briefing materials

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.

In recent years, SELESAGE, which is the Company’s joint investment-type real estate, has proven popular. It is an investment product enabling investments from as little as ¥10mn yen by dividing the ownership of properties worth billions of yen in good locations in central Tokyo into small lots. Following on from the projects in Daikanyama and Omotesando, the third project, SELESAGE Nakameguro, has also been completely sold, and the Company is actively developing this business. In addition, for rental office projects to regenerate pre-owned properties and to realize workplaces close to homes, the second project, MID POINT Otsuka, has been opened following MID POINT Meguro Fudomae. It also continues to develop products and services that raise the value of these real estate to rise. In such ways, the Company’s Solutions business menu is becoming more and more rich, and it is able to provide a one-stop solution for whatever type of property that the customer wants.

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 real estate rentals operation and management, 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 real estate rentals operation and management 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.

Exterior view of SELESAGE Nakameguro (left) and the MID POINT Otsuka shared lounge (right)



Source: The Company’s results briefing materials

Business overview

At MIMARU, stays are like you live there

4. Accommodation business

The Accommodation business is a new business from the division of segments in FY3/20. The Company is utilizing its expertise in developing and building new condominiums to develop and manage MIMARU hotels that, as Accommodation facilities in urban areas, make possible “stays are like you live there,” for which there are still few other examples in Japan. They are located in areas with easy access to cities, tourist attractions, and so on, and offer a style of stay that is the same as living at home for families and groups of four or more people. Moreover, their multi-national staff provide support for sightseeing, eating and shopping. The concept is to provide large rooms that include a kitchen and dining space so that guests can reside in a relaxed atmosphere just like their own homes. The Company has currently opened 15 hotels in Tokyo and Kyoto*.

| * As of the end of June 2020, 11 hotels had been temporarily closed due to the COVID-19 spread. |

Long stay-type hotels like MIMARU are rare in Japan and they have acquired an excellent reputation among foreign visitors to Japan, including that 3 hotels have been ranked in the top 20 in the Ranking of Hotels chosen by Foreigners in the Inbound Demand Report of Tripadvisor, Inc. So since its launch, this business has been performing extremely steadily. The Company is also conducting various other measures, including preparing rooms in collaboration with Pokémon and designers. However, due to the impact of the COVID-19 outbreak, occupancy rates have fallen since February 2020 and it has been necessary to implement measures including temporarily closing some hotels. But as the medium- to long-term trend, it is forecast that demand will increase for long-term stays from both inbound and domestic guests, so the rates are expected to recover in the future.

Pokémon Rooms (left) are available in 6 hotels, and a room in MIMARU Tokyo UENO OKACHIMACHI (right)



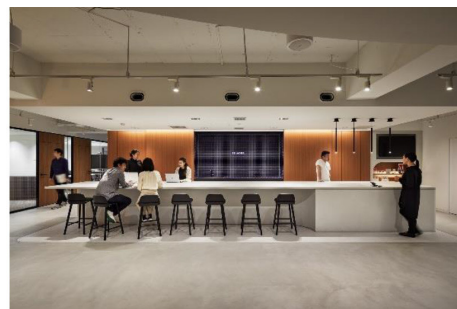
Source: The Company's results briefing materials

Has an excellent reputation for design work and construction technologies

5. Construction business

The Construction business is conducted by Cosmos More Co., Ltd., which builds condominiums galleries, sells interior design options for new condominiums, conducts repairs and improvements for office relocations, and conducts design and construction work of constructing steel housing for residential environments and office environment. It also provides “design +α” value-added services. It is currently strengthening measures for office repairs and improvements to maximize the value of offices through design and construction work in accordance with workstyle reforms. In addition, it is steadily expanding the business scope, including by participating in design and construction work for a variety of facilities, including sports facilities, shops, and amusement facilities. It has acquired an excellent reputation for its design work, including that already in 2020, three of its design works had won overseas awards.

The Amuse office (left) won in the German Design Awards 2020, and the COSMOS office (right) won in the 2020-2021 Asia Pacific Property Awards



Source: The Company's results briefing materials

Results trends

Before the spread of COVID-19, results were trending extremely steadily

1. FY3/20 results

For FY3/20, the Company reported sales of ¥110,559mn (+5.7% YoY), operating profit of ¥6,010mn (+11.7%), recurring profit of ¥5,250mn (+3.9%), and net profit attributable to parent company shareholders of ¥3,415mn (-25.1%). Sales and operating profit were also above the initial forecasts, by ¥559mn and ¥210mn, respectively, although recurring profit was ¥50mn below forecast and net profit attributable to parent company shareholders ¥885mn below forecast. The Solutions business performed particularly strongly, with sales and operating profit increasing for the sixth consecutive period. While operating profit was strong and increased by double digits, recurring profit only increased by a single digit due to the rise in financial costs from the expansion in purchases in the Company's proactive strategy. The FY3/21 results outlook deteriorated from the start of the year following the global impact of the COVID-19 spread, leading to a reversal of deferred tax assets, and there was also a decline as a reaction to the recording of extraordinary profit in the previous period. As a result, net profit attributable to parent company shareholders decreased.

Results trends

FY3/20 results

(¥mn, %)

	FY3/19		FY3/20		% of change
	Amount	% of sales	Amount	% of sales	
Sales	104,606	100.0	110,559	100.0	5.7
Gross profit margin	19,134	18.3	18,658	16.9	-2.5
SG&A expenses	13,754	13.1	12,647	11.4	-8.0
Operating profit	5,380	5.1	6,010	5.4	11.7
Recurring profit	5,050	4.8	5,250	4.7	3.9
Net profit attributable to parent company shareholders	4,562	4.4	3,415	3.1	-25.1

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

The self-restraint measures are gradually being lifted from May 2020 onwards

2. FY3/21 forecasts

For the FY3/21 results, the Company is forecasting sales of ¥105,000mn (-5.0% YoY), operating profit of ¥0 (-100.0%), a recurring loss of ¥800mn (-¥6,050mn), and a net loss attributable to parent company shareholders of ¥800mn (-¥4,215mn). It is assuming that the coronavirus crisis will not completely settle down until September 2020 and a gradual recovery will occur from October onwards, and that the business environment will have returned to something similar to that before the COVID-19 outbreak by the end of the period. Therefore, it expects self-restraint for sales activities and the profitability of some delivered properties to decline, mainly in the 1Q. However, in the Accommodation business, it seems that the effect of COVID-19, of causing the hotels' occupancy rates to decline, will persist over the long term.

As of the middle of June, in principle the Company's employees are working from home and working at work sites at different times only as necessary. It has temporarily closed some work sites, including the condominium and single-family houses information centers and the brokerage sales offices, while it is also exhibiting self-restraint for some activities, like sales and purchasing activities, including shortening the working hours on the inquiries help desk. But following the end of the period of consecutive holidays in May, it has been sequentially resuming sales activities. At the current time, the impact on construction projects has been minimal. But going forward, should construction work be suspended, deliveries of properties and the recording of sales may be delayed. In addition, the Company is keeping down new investment in systems and R&D and reviewing implementation periods, while in preparation for the impact of the COVID-19 pandemic becoming prolonged, it is working on measures to maintain and improve liquidity on hand. Within this situation, in the Accommodation business, there are several cases of sales self-restraint (temporary closures) for the MIMARU hotels. But if excluding the Accommodation business, it is forecast that business conditions will slowly improve from May and June onwards, alongside the lifting of the self-restraint measures. Therefore, the Company's assumptions for its mainstay businesses appear somewhat conservative, and as a result, it is also possible to assume that it can avoid losses for the profit items from the recurring loss and down. However, at the present time there is no treatment or vaccine for COVID-19 and it is also certain that the future is impossible to predict, so it must remain on guard for whatever the future holds.

Results trends

FY3/21 forecast

(¥mn, %)

	FY3/20		FY3/21 E		
	Amount	% of sales	Amount	% of sales	% of change
Sales	110,559	100.0	105,000	100.0	-5.0
Gross profit margin	18,658	16.9	13,900	13.2	-25.5
SG&A expenses	12,647	11.4	13,900	13.2	9.9
Operating profit	6,010	5.4	0	0.0	100.0
Recurring profit	5,250	4.7	-800	-0.8	-
Net profit attributable to parent company shareholders	3,415	3.1	-800	-0.8	-

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

Although the Accommodation business continues to struggle, conditions are improving in the mainstay businesses

3. Results trends by business

Looking by business in FY3/20, in the Residential business, although sales declined, profits increased by double digits due to the improvement in earnings. In the Solutions business, sales increased and profits grew by double digits, while in both the Accommodation business and the Construction business, sales rose by double digits. So it was thought that the Company was making steady progress for its proactive strategy in accordance with the medium-term business plan. However, due to the impact of the COVID-19 outbreak across the end of the period, results in the Accommodation business slowed down dramatically. For the FY3/21 outlook, the Accommodation business is forecast to record a loss, as the impact of the COVID-19 outbreak will last over the entire period. For all the other businesses also, the forecasts are for significant decreases in profits, mainly due to the impact of the self-restraint measures. However, toward a recovery from the 2H, the Company is likely to secure sales at a certain level in all businesses except for the Accommodation business. It seems that the profits resulting from these sales levels will somewhat cover for the Accommodation business, but it cannot be complacent. The details of the results and the results forecast by business are shown below.

Results trends

FY3/20 results and FY3/21 forecast by segment

(¥mn, %)

	FY3/19		FY3/20			FY3/21 E		
	Sales	% of sales	Sales	% of sales	% of change	Sales	% of sales	% of change
Residential business	38,875	37.2	37,369	33.8	-3.9	42,300	40.3	13.2
Solutions business	43,744	41.8	47,440	42.9	8.4	45,500	43.3	-4.1
Accommodation business	10,120	9.7	12,730	11.5	25.8	5,300	5.0	-58.4
Construction business	11,665	11.2	13,706	12.4	17.5	12,500	11.9	-8.8
Eliminations of inter-Group transactions	199	-	-686	-	-	-600	-	-
Total	104,606	100.0	110,559	100.0	5.7	105,000	100.0	-5.0

	FY3/19		FY3/20			FY3/21 E		
	Operating profit	% of sales	Operating profit	% of sales	% of change	Operating profit	% of sales	% of change
Residential business	1,183	3.0	1,545	4.1	30.5	600	1.4	-61.2
Solutions business	3,457	7.9	4,887	10.3	41.4	2,500	5.5	-48.8
Accommodation business	1,871	18.5	1,162	9.1	-37.9	-1,500	-28.3	-
Construction business	366	3.1	349	2.5	-4.6	200	1.6	-42.7
Eliminations of inter-Group transactions	-1,498	-	-1,934	-	-	-1,800	-	-
Total	5,380	5.1	6,010	5.4	11.7	0	0.0	-100.0

The overseas business is included in eliminations of inter-Group transactions in FY3/19
 Source: Prepared by FISCO from the Company's financial results

(1) Residential business

In the FY3/20 results, sales were ¥37,369mn (+3.9% YoY) and operating profit was ¥1,545mn (+30.5%). The number of deliveries of renovated condominiums increased, but the number of deliveries of new condominiums and new single-family houses decreased. The reason for these decreases was that, in the severe purchasing environment, little progress was made in acquiring business-use sites. For new condominiums, there were many deliveries of high-priced properties compared to in FY3/19, so the sales unit price rose, but the gross profit margin declined due to the increase in construction costs. Conversely, the gross profit margins of renovated condominiums and new single-family houses improved. SG&A expenses were also kept down compared to in the previous period, so profits increased by double digits.

For the FY3/21 results, the Company is forecasting sales of ¥42,300mn (+13.2% YoY) and operating profit of ¥600mn (-61.2%). The number of deliveries of renovated condominiums is set to decrease slightly, but the number of deliveries of new condominiums and new single-family houses will increase, while sales are also scheduled to start for two projects for condominiums for seniors in Hokkaido. The sales unit price is expected to normalize, but sales costs of several hundreds of millions of yen will be incurred in advanced for the condominiums for seniors and other properties that are scheduled to be delivered from FY3/22 onwards. There is also the impact of the COVID-19 outbreak, so the operating profit margin is forecast to decline. The effects of the COVID-19 outbreak are expected to include that the number of contracts and deliveries will decrease and the profitability of some properties will decline, alongside the self-restraint for sales activities and the delays in progressing sales. The current situation is that model rooms have gradually reopened after Golden Week, and it appears that projects are also being resumed without any of the feared major impacts, such as the suspension of construction work. Therefore, even on considering effects such as a certain level of delay in the progress made and upfront sales costs, the Company's forecasts appear somewhat conservative. However, there are likely to be some developments that will help to get a grip on the situation, particular in 1H FY3/21.

Results trends

Background to the results of the Residential business

(¥mn, %)

	FY3/19			FY3/20					FY3/21 E				
	Number of deliveries	Sales	Percentages of total sales	Number of deliveries	Sales	Percentages of total sales	Increase/decrease in number of deliveries	Sales increase/decrease rate	Number of deliveries	Sales	Percentages of total sales	Increase/decrease in number of deliveries	Sales increase/decrease rate
New condominiums (units)	414	20,336	52.3	325	18,185	48.7	-89	-10.6	421	20,300	48.0	96	11.6
New single-family houses (sections)	109	6,981	18.0	70	5,224	14.0	-39	-25.2	92	7,600	18.0	22	45.5
Renovated, pre-owned condominiums	-	10,634	27.4	-	13,179	35.3	-	23.9	-	13,600	32.2	-	3.2
Of which, renovated condominiums (units)	234	9,986	25.7	317	12,333	33.0	83	23.5	295	12,800	30.3	-22	3.8
Real estate brokerage and other services	-	922	2.4	-	779	2.1	-	15.5	-	800	1.9	-	2.7
Total	-	38,875	100.0	-	37,369	100.0	-	-3.9	-	42,300	100.0	-	13.2

Note: In new condominiums, town houses and new single-family houses include residential land subdivisions

Note: The number of units and the number of sections in joint-project properties are based on the business ratios

	Gross profit margin (%)			Completed inventory		Completed contracts		Contract progress rate (%)	
	FY3/19	FY3/20	FY3/21 E	End FY3/19	End FY3/20	End FY3/19	End FY3/20	End FY3/19	End FY3/20
New condominiums (units)	19.1	18.5	16.1	80	92	108	150	31.2	35.6
Of which, uncompleted contracts (units)				72	83				
New single-family houses (sections)	10.1	10.8	10.4	33	53	3	3	4.4	3.3
Of which, uncompleted contracts (units)				30	50				
Renovated condominiums (sections)	13.3	14.1	13.2			12	5	3.9	1.7

Note: The gross profit margin does not include the inventory write-down

Note: The contract progress rate is the progress made for sales at the end of the period in relation to the next period's results forecast

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

(2) Solutions business

In the FY3/20 results, sales were ¥47,440mn (+8.4% YoY) and operating profit was ¥4,887mn (+41.4%). Due to the active conditions in the market for real estate for investors, sales of real estate for investors were strong. In addition, in real estate rentals operation and management, the number of subleasing units rose and sales of real estate brokerage and other services increased, which led to the higher sales and profits. In particular, the joint investment-type real estate, which the Company began selling in FY3/18, has proven popular among customers. The gross profit margin for entire buildings improved, the contract progress rate and the number of real estate subleasing units grew steadily, while the vacancy rate also trended a low level.

For the FY3/21 results, the Company is forecasting sales of ¥45,500mn (-4.1%) and operating profit of ¥2,500mn (-48.8%). In addition to the decline as a rebound from the strong sales in the previous period, the sales earnings from some properties is expected to fall due to the self-restraint in sales activities from the impact of the COVID-19 outbreak and the deterioration of leasing conditions, including for store sections, and the gross profit margin is forecast to decrease. However, real estate for investors has the aspect of being dependent on customers, so the possibility remains that results will exceed the forecasts.

Results trends

Background to results in the Solutions business

(¥mn, %)

	FY3/19			FY3/20				FY3/21 E					
	Number of deliveries	Sales	Percentages of total sales	Number of deliveries	Sales	Percentages of total sales	Increase/decrease in number of deliveries	Sales increase/decrease rate	Number of deliveries	Sales	Percentages of total sales	Increase/decrease in number of deliveries	Sales increase/decrease rate
Real estate for investors (properties)	-	28,160	64.4	-	31,067	65.5	-	10.3	-	29,200	64.2	-	-6.0
Of which, entire buildings	23	20,249	46.3	19	20,615	43.5	-4	1.8	19	25,700	54.2	0	24.7
Real estate rentals operation and management	10,158	15,032	34.4	10,633	15,466	32.6	475	2.9	10,150	15,900	34.9	-483	2.8
Real estate brokerage and other services	-	551	1.3	-	906	1.9	-	64.4	-	400	0.9	-	-55.8
Total	-	43,744	100.0	-	47,440	100.0	-	8.4	-	45,500	100.0	-	-4.1

	Gross profit margin (%)			Completed contracts		Contracts progress rate (%)	
	FY3/19	FY3/20	FY3/21 E	End FY3/19	End FY3/20	End FY3/19	End FY3/20
Entire buildings (Real estate for investors) (properties)	11.9	12.6	10.5	600	5,329	3.0	20.7

Note: The gross profit margin does not include the inventory valuation loss
 Source: Prepared by FISCO from the Company's results briefing materials

(3) Accommodation business

In the FY3/20 results, sales were ¥12,730mn (+25.8% YoY) and operating profit was ¥1,162mn (-37.9%). Sales increased by double digits due to the increase in the number of operating hotels in properties managed, including the new openings of seven MIMARU apartment hotels and 399 rooms. Conversely, due to the impact of the COVID-19 outbreak since the beginning of 2020, the business environment has rapidly deteriorated, such as that in March the average occupancy rate fell to 15.6% and the average room unit price and the average number of days of stays both fell significantly. The occupancy rate of rooms for the full fiscal year was 64.9%, a decline of 17.3 percentage points YoY, while there was also the impact of the sale of a high-earnings property in the previous fiscal period, so profits declined.

For the FY3/21 results, the Company is forecasting sales of ¥5,300mn (-58.4% YoY) and an operating loss of ¥1,500mn (-¥2,662mn). On entering FY3/21, the same severe conditions as in March are continuing, including that the Company has temporarily closed 11 of the 15 MIMARU hotels. Therefore, for hotel management, it is assuming that the FY3/21 occupancy rate will remain around the March level until September, and although it will gradually recover from October onwards, it will not completely recover until the end of the period. For hotel sales, the sales periods of some properties will be delayed, while it is also possible that there will be partial delays for the four hotels and 133 rooms scheduled to newly open in Osaka and Kyoto in FY3/21. However, results are expected to recover from the major trend in the "post-coronavirus" period of the increase in demand for Accommodation from tourists, particularly overseas tourists. Therefore, it seems that there has been no change to the Company's medium- to long-term growth strategy. But until the number of overseas tourists recovers, it is thought that it will aim to capture demand for Accommodation from Japanese guests, for who it has not conducted much sales activities up to the present time

Cosmos Initia Co., Ltd. | 19-Aug.-2020

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<https://www.cigr.co.jp/english/message.html>

Results trends

Background to the apartment hotels' results

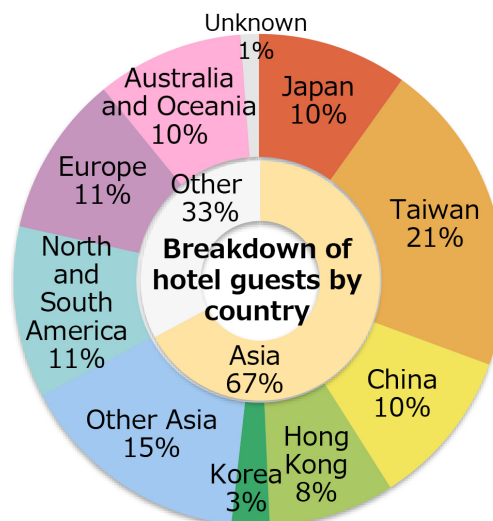
	FY3/19		FY3/20	
	(hotels)	(rooms)	(hotels)	(rooms)
Number of developments	25	1,237	33	1,752
Of which, completed developments	8	361	15	760

Management conditions

	FY3/19	FY3/20	March 2020 (reference)
Average occupancy rate (%)	82.2	64.9	15.6
Average room unit price (¥1,000)	25	24	16
Average length of stay (days)	2.9	3.0	2.4

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

Ratios of numbers of hotel guests by country



Source: The Company's results briefing materials

(4) Construction business

In the FY3/20 results, sales were ¥13,706mn (+17.5% YoY) and operating profit was ¥349mn (-4.6%). Orders for construction work increased and sales rose by double digits. But due to the relocation expenses for the COSMOS More head office, SG&A expenses increased and profits declined. For the FY3/21 results, the Company is forecasting sales of ¥12,500mn (-8.8%) and operating profit of ¥200mn (-42.7%). It is anticipating that orders will decrease and the completion of some construction projects will be delayed due to the impact of the COVID-19 outbreak.

■ Medium- to long-term management policy

May change the medium-term business plan due to the impact of the COVID-19 outbreak

1. Effects of the COVID-19 outbreak on the medium-term business plan 2021

In 2020, the COVID-19 pandemic suddenly struck the human race, and it is having a major impact on the world. As previously stated, each of the Company's businesses are being affected to a greater or lesser extent, and it is currently implementing its responses to and measures for the virus. Therefore, positioning the current time as the first step toward a new stage, its policy is to strengthen investment and strategy towards taking an even greater leap forward. It seems that the Company's medium-term business plan 2021 is also being affected. It is possible that it will revise, postpone, or at the very least change its measures for the FY3/22 targets, which are sales of ¥135bn, operating profit of ¥8.1bn, and an equity ratio of 30%. However, this is not to say that the direction it is aiming for in the medium-term business plan 2021 is a mistake. Due to the efforts of the human race, the "post-coronavirus" world will arrive, perhaps even in the near future. When this occurs, it intends to aim for these targets once again. So even for the Accommodation business that is struggling the most, against the backdrop of the medium-term business plan 2021, we consider that the Company's approach and measures for its medium- to long-term management policy are correct, and that it should deploy a strategy in accordance with this policy.

No change to the basic medium- to long-term policy

2. Medium- to long-term management policy

As its medium- to long-term management policy, the Company is aiming to create social value through management that implements CSV*1 and that is aware of the SDGs*2 and ESG*3 in all its management activities; to create and innovate businesses by producing urban environments in response of societal changes and the diversification of needs; and to improve shareholder value through further strengthening its financial foundation and enhancing returns to shareholders. It intends to take an even greater leap forward and to enter a new stage, and as the measures for this, it is deploying an integrated strategy for business, investment, and organization and personnel, as well as expanding its businesses and actively conducting investment. At the same time, it is further strengthening the financial foundation and aiming to improve returns to shareholders. The medium-term business plan embodies these efforts.

*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.

Medium- to long-term management policy

The reason why the Company has not made any changes to the management policy is precisely because Next GOOD, which it has set as its mission, contains “the wish” of having a presence that provides “value that is one step ahead” to its customers and to society in advance, and the medium- to long-term management policy serves as the backbone of this Next GOOD mission. What is considered to have a particularly important meaning within the medium- to long-term management policy is creating and innovating businesses through producing urban environments that respond to societal changes and the diversification of needs. For the Company, this entails deploying each strategy, such as the business, investment, and organization and personnel strategies, in an integrated manner to respond to every societal change occurring around its business domains. These changes include the increases in single-person households and senior citizens, the diversification of work styles and employment, the increases in the number of overseas visitors to Japan and of foreigners living in Japan, the changes to the social infrastructure due to technological innovation, the expansion of the sharing economy, the growth of the leisure and entertainment areas, and the rise in interest in health and beauty.

When dividing from the perspective of strategy, it can be broadly divided into the business strategy, the investment strategy, the organizational and personnel strategy, and the financial strategy. For the business strategy, it is considered that the Company will deploy the products and services it has developed for existing business domains in peripheral business domains; actively expand the regeneration, utilization, and management business of pre-owned stock; and create new businesses to follow on from the apartment hotel business and expand the business domains. For the investment strategy, in addition to conducting R&D to grow and expand existing businesses, it seems that it will incorporate ICT (Information & Communication Technology) and concentrate resources into creating new businesses, including through M&A. For the organizational and personnel strategy, the Company is aiming to enhance WSI*, its proprietary workstyle reform, and overwhelmingly improve creativity and productivity. Moreover, for the financial strategy, it is thought that, at the same time as expanding businesses and actively investing, it will strengthen the financial foundation and increase shareholder value by greatly improving returns to shareholders, including by continuously increasing the dividend.

* 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.

No sense of a change of direction for the specific strategies for each business

3. Specific measures for each business

While it is possible that the medium-term targets for the respective business will change due to the impact of COVID-19, it is considered that the sense of direction for the overall strategy will not change. Of course, for aspects such as schedules and resource management, it seems that on occasions it will be necessary to adjust the sense of direction itself.

In the Residential business, the Company is aiming to improve profitability through providing a rich menu of services that it provides as a one-stop service. For new condominiums, through strengthening products and services with a focus on quality, such as developments in locations that are highly convenient and for spatial designs, it is aiming to differentiate its residential developments that are one step ahead and to ensure a certain level of market share. In condominiums for active seniors, it is thought that it will accelerate developments in the major cities nationwide to respond to diverse needs. It intends to incorporate the space designs of new condominiums for renovated condominiums and to provide one-stop services for retail real estate brokerage and renovation work.

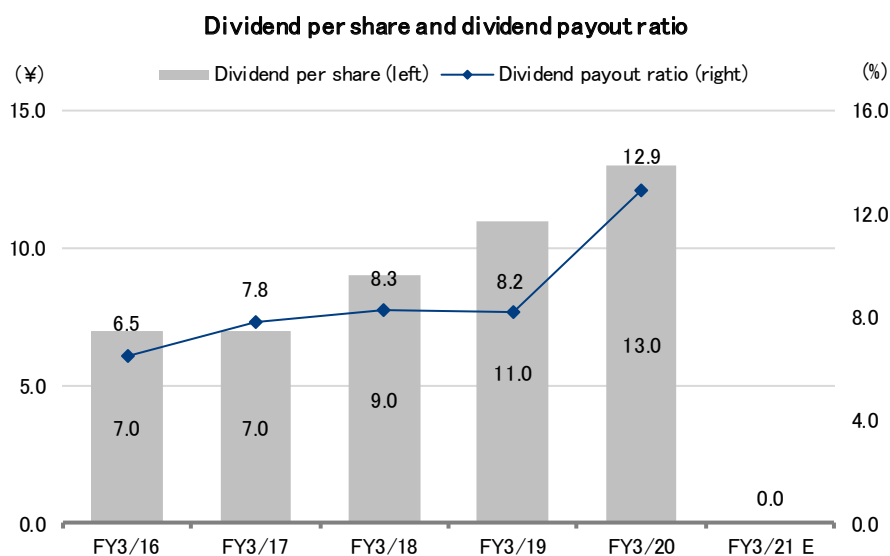
Medium- to long-term management policy

In the Solutions business, the Company provides a one-stop service for every aspect, from purchasing through to management and sales, while it is also working to improve the efficiency of operations. In real estate for investors, in addition to diversifying products, regenerating pre-owned stock, and strengthening branding, it seems that, following on from SELESAGE and MID POINT, it will continue to develop products and services that cause the real estate to improve in value. In real estate rentals operation and management, it will increase the number of units managed and the total area managed and improve the efficiency of operations. In real estate consulting, the policy is to enhance the Solutions business and consulting services and to respond to customers through providing one-stop services.

In the Accommodation business, it seems that risks are easy to control because this business combines property development and operations management (after the sale). That said, for the time being, use by overseas visitors to Japan is not expected, so the Company is considering strengthening sales promotions for Japanese guests, for who it has not conducted much customer-attraction measures up to the present time. In the Construction business, rather than simply for office spaces, its policy is to further strengthen measures for office design and construction work for workstyle reforms, for sports facilities like futsal pitches and clubhouses, and also for shops and amusement facilities.

Shareholder return policy

The Company is aware that improving enterprise value and returning profits to shareholders are important management issues. For its dividend policy, it works to stably pay a dividend while considering returns to shareholders and supplementing the internal reserves it needs for continuous growth. For the FY3/20 dividend, as was announced on August 7, 2019, the Company changed its dividend policy toward enhancing opportunities for returns to shareholders, and began paying an interim dividend from FY3/20. Therefore, the annual dividend was ¥13 per share as the total of the period-end dividend of ¥8 and the interim dividend of ¥5. It does not plan to pay a dividend in FY3/21 due to concerns about the COVID-19 impact.



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 single-family houses 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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