

COMPANY RESEARCH AND ANALYSIS REPORT

Cosmos Initia Co., Ltd.

8844

TSE JASDAQ

25-Aug.-2021

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FISCO Ltd.

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

Cosmos Initia Co., Ltd.
8844 TSE JASDAQ

25-Aug.-2021

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* This is an English translation of a report issued on July 19, 2021.

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Summary

Headed for a recovery in FY3/22, with limited impact of COVID-19 on business segments other than Accommodation business

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. 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 Company’s Group consists of four businesses - Residential business, which sells condominiums and other properties under the core-brand INITIA series, Solutions business, which handles investment property sales and property rental management, Accommodation business, which develops and operates apartment hotels, and Construction business, which handles office interiors and other projects. The impact of the novel coronavirus pandemic (hereinafter, COVID-19) strongly affected Accommodation business but was limited in other businesses.

2. Strengths include planning capabilities for product and services

The Company’s main businesses are Residential business and Solutions business, and Residential business handles various brands, including INITIA for new condominiums, INITIA FORUM (former GRAND FORUM) for new single-family houses, and INITIA & Renovation (former &Renovation) for renovated condominiums. The Company is enhancing its planning capabilities, which create new products and services, and after-services cultivated through a track record of supplying more than 100,000 condominium units for robust customer-oriented business initiatives. In Solutions business, it implements property leasing management for leasing condominiums, office buildings, and other properties, including investment-purpose properties, such as COSMOS REID and COSMOS GRACIA investment condominiums and REID-C and CROSS-C office buildings, and investment property brokerage, development consulting, and other property brokerage and other services. This business stands out in provision of one-stop solutions that leverage knowhow as a developer.

3. FY3/21 results substantially beat initial forecasts due to investment property sales and other activities

In the FY3/21 results, sales were ¥107,257mn (-3.0% year-on-year (YoY)) and operating profit was ¥2,376mn (-60.5%). Sales and profits dropped because of very difficult results conditions in Accommodation business because of decline in occupancy at “MIMARU” apartment hotels on issuance of the state of emergency declaration, restrictions on entry into Japan from other countries, and other measures related to COVID-19. Compared to the initial forecast, meanwhile, the Company overshot by ¥2,257mn in net sales and ¥2,376mn in operating profit. Upside drivers were mainly limited COVID-19 impact on segments other than Accommodation business and upbeat sales of investment properties and orders for office interior construction projects.

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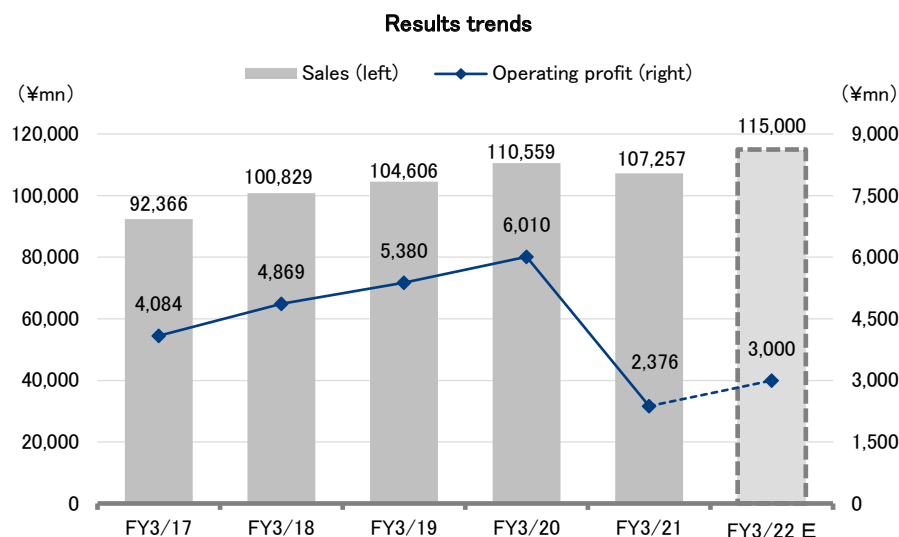
Summary

4. Movement toward income recovery in FY3/22

The Company expects income recovery in FY3/22 with targets of ¥115,000mn in net sales (+7.2% YoY) and ¥3,000mn in operating profit (+26.3%). Despite anticipating continuation of some decline in occupancy rates in Accommodation business due to the COVID-19, it projects sales of hotel development properties postponed from FY3/21. Furthermore, it assumes limited impact on business segments other than Accommodation business. In the medium-term business plan 2021, while the Company lowered goals to reflect COVID-19 conditions, it intends to continue existing strategic policies, while adding the theme of response to new values, such as lifestyle change, driven by the COVID-19, because of clear movement toward income recovery.

Key Points

- A mid-tier developer with strengths in product and service planning capabilities and service quality
- Accommodation business struggled in FY3/21 due to COVID-19 impact, headed for income recovery in FY3/22
- Continuing longer-term management policy with the addition of response to COVID-19-driven value changes



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

Company profile

Evolving into a company that produces urban environments

1. Company profile

Cosmos Initia is a mid-tier developer affiliated with the Daiwa House Group, focusing mainly on condominiums and single-family houses in the greater Tokyo area and the Kinki region. The Company has developed family-type condominiums for first-time buyers for many years and reached cumulative supply of 107,000 new condominium units.

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Company profile

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, 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. The Company indicates that it is already close to arriving at 4,500 units in cumulative supply of single-family houses, a business is entered and ramped up in the 2000s. 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, the Company is substantially broadening the scope of its business portfolio from the existing area of mainly developing condominiums and continues to evolve toward becoming a company that produces urban environments.

Limited COVID-19 impact on segments besides Accommodation business

2. History and benefits of the capital and business alliance with Daiwa House Industry

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.

Cosmos Initia has enjoyed the textbook synergies one might expected from its acquisition by Daiwa House Industry. 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 Daiwa House Industry 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 Industry 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.

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Company profile

The Company promoted a growth strategy within the context of this type of healthy relationship since entering the Daiwa House Group. While COVID-19, which took hold worldwide in 2020, had an effect as well, as explained below, the impact weighed strongly on Accommodation business but was very limited for mainstay Residential and Solutions businesses. Looking at FY3/21 results, it might seem as if the Company's growth strategy stalled in the shorter term. Nevertheless, we expect restoration of the growth trend to the previous pace relatively soon because these conditions should not significantly affect longer-term management policy envisioned by the Company.

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.

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The Company's businesses

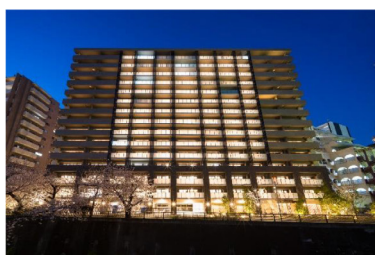
The Company develops and sells properties, though categorizes operations into easy-to-understand areas for customers, business partners, and investments - Residential business, which provides products and services related to housing to general consumers, Solutions business, which provides products and services for investment properties to the corporate market, Accommodation business, which develops and operates apartment hotels, and Construction business, which designs and builds office environments and other facilities. Sales breakdown by business in FY3/21 differed from a typical year because of heavy pressure on Accommodation business by the impact of COVID-19 with Residential at 38%, Solutions at 48%, Accommodation at 1%, and Construction at 13%. The Company directly operates mainstay Residential and Solutions businesses, Cosmos Hotel Management Co., Ltd. runs the Accommodation business, and Cosmos More Co., Ltd. handles the Construction business.

Strengths are product and service planning capabilities and service quality

1. Residential business

Cosmos Initia's Residential business does not follow the traditional split between new houses and pre-owned houses, 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 FY3/21, new condominiums accounted for 51% of segment sales ratio, new single-family houses 19%, renovated condominiums 28%, 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).

Residential business examples



New condominium building
"INITIA Itabashi Sakura Residence"



New single-family houses
"INITIA FORUM Tama Plaza"



Renovated condominium building
"Ars Kyoto Aneyakouji"

Source: The Company's results briefing materials

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The Company's businesses

The new condominiums that account for most of sales in the Residential business are aimed at singles, 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. The Company has a strong reputation in condominiums buildings over many years, surpassing 100,000 cumulative units in 2011, its 37th year in property sales, and reaching 107,000 units supplied cumulatively up to now, and has received the Good Design Award in 19 consecutive years (FY3/03-21).

The Company is developing new condominiums that target active seniors amid the arrival of an “era of 100-year lives.” INITIA GRAN (formerly GRAN COSMOS) is the brand for active senior condominiums. While the term “senior” is often associated with care and other services, many seniors actually enjoy active lives (and this number is rising). Since few property designs envision active seniors, despite this environment, the INITIA GRAN series is popular. In contrast to “serviced senior homes” and “paid nursing homes with care,” these properties let residents live freely and retain value as an asset. Furthermore, they provide a variety of services and support that contribute to active and healthy living, including a public bath, café dining, and other common facilities where residents interact and implementation of events and living assistance that contributes to health and reassurance by subsidiary Cosmos Life Support Co., Ltd. and others. 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. It is also progressing multiple projects, including in Hokkaido, Fukui Prefecture and Fukuoka Prefecture.

While the Company is primarily known as a condominium developer, it has already almost supplied 4,500 parcels for new single-family houses under the INITIA FORUM brand. 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. Furthermore, the INITIA & Renovation brand for renovated condominiums leverages knowhow for design, functionality, and other aspects cultivated in new condominium development business to revitalize “second-hand condominiums” in terms of “livability.” In brokerage and purchasing of residential properties, the Company supports smoother moves through collaboration with new construction and renovated condominiums. In renovation and reform projects for residential properties, it proposes renovation to valuable living spaces via an optimal plan.

Condominiums for active seniors



“INITIA GRAN Sapporo East” exterior and café dining (common area) perspective drawings

Source: The Company's results briefing materials

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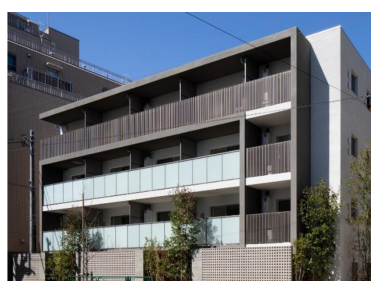
The Company's businesses

Provides one-stop solutions for utilizing properties

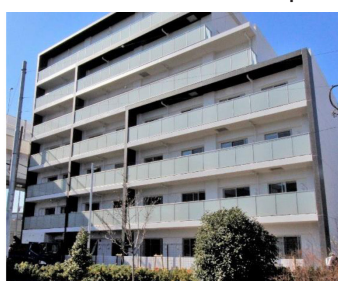
2. Solutions business

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 product and services menu includes property leasing management for leasing condominiums, office buildings, and other properties, including investment properties, such as COSMOS REID and COSMOS GRACIA rental condominiums and REID-C and CROSS-C rental office buildings and land and building brokerage services for investment condominium buildings and business land, property-related consulting, and other property brokerage and other services. In the percentages of total sales in the Solutions business (FY3/21), real estate for investors provided 68%, real estate rentals operation and management 30%, and real estate brokerage and other services 2%.

Solutions business examples



Investment property
"COSMOS GRACIA Gakugei Daigaku"



Property rental management
"PRIME NEXUS Kawasaki Tonomachi"



Property rental management
"MID POINT Musashi Kosugi"

Source: The Company's results briefing materials

In investment properties, the Company sells rental condominiums, rental buildings, and commercial facilities with attractive designs that it develops and also older rental condominiums and rental buildings that it completely renovates into properties with high-level design features and functions capable of generating stable return to investors in central Tokyo and other areas with strong demand. This business, which utilizes the full range of knowhow possessed by the Company to develop, revitalize, and sell investment properties that offer robust value, has emerged as a driver of the Company's expansion. In particular, the SELESAGE joint-investment property brand divides ownership rights in properties with attractive locations in central Tokyo worth a few billion yen into investment products for investments starting at ¥10mn. SELESAGE Toyosu, the fourth project launched in this series following properties in Daikanyama, Omotesando, and Nakameguro, has been popular too.

The Company has a long history of rental management exceeding 30 years, and its consignments as of March 2021 totaled 10,000 units in rental condominium sub-leases and about 20,000 tsubo of offices and other rental building operations and management in Tokyo and the three adjacent prefectures. In rental condominium sub-leasing business, it leases condominiums from owners and sub-leases them to tenants. This format liberates owners from burdensome activities, such as recruiting tenants, handling contract, transfer, and renewal procedures, and dealing with troubles during occupancy, and delivers stable rental income. It is a highly convenient and valuable service for owners and offers a stable income source without ownership risk for the Company. Rental building operation and management uses a similar format. The Company also handles operation service for MID POINT rental offices with growing demand in the COVID-19. It currently has five MID POINT sites, including Meguro Fudomae and Musashi Kosugi, and furnished offices INC Meguro Fudomae and INC Ebisu.

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The Company's businesses

Expecting a rebound in “MIMARU” business

3. Accommodation business

Accommodation business is a new business added as a segment in FY3/20 that develops and operates “MIMARU” apartment hotels as a place to stay as a home and ETOWA outdoor resorts utilizing new condominium development and construction knowhow. The Company develops “MIMARU” sites in locations with easy access to urban tourism and other areas. “MIMARU” sites provide a large apartment with kitchen and dining space as accommodation facilities to support a comfortable long-term stay similar to a home for families and groups of four or more people. With multinational front-desk staff, the sites offer proposals related to tourism, meals, and shopping. They incorporate various initiatives, such as provision of Pokémon-themed rooms and room developed with designers. Foreign travelers visiting Japan highly rate the sites as seen in selection as the eighth-ranked best hotel in the “2021 Traveler’s Choice Best of the Best” listing released by TripAdvisor Inc. While the Company had 16 sites in Tokyo, Kyoto, and other areas as of FY3/21, since inbound accommodation demand dropped sharply from February 2020 and occupancy rates fell due to the COVID-19 impact, it suspended some locations (four sites as of end-March 2021). Nevertheless, the Company intends to resume operations and open new sites as demand recovers on the prospect of rising long-term stay demand domestically and from foreign visitors as a longer-term trend. It aims to have operations with 26 locations (including two suspended sites) at the end of FY3/22. This business is likely to rebound with rapid inroads by vaccinations as a measure to prevent infections.

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“MIMARU” apartment hotels in the Accommodation business



“MIMARU Tokyo Asakua STATION”



“MIMARU Osaka Shinsaibashi WEST”



“MIMARU Osaka Namba NORTH”

Source: The Company's results briefing materials

Broadening business scope from setting up condominium gallery sites and office construction

4. Construction business

The Construction business handles condominium gallery set-up, sales of interior options for new condominiums, office move reforms, and other activities. It also addresses needs of client companies for brand penetration, productivity enhancement, and workstyle reforms by designing and building order-made office spaces suited to the business environment and culture and employee lifestyles. Additionally, it designs and builds commercial facilities that help stimulate communities while considering economic and environmental requirements. In addition, it is steadily expanding the business scope, including by participating in design and construct work for a variety of facilities, including sports facilities and amusement facilities. It has acquired an excellent reputation for its design work, including that its design works had won overseas awards.

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The Company's businesses

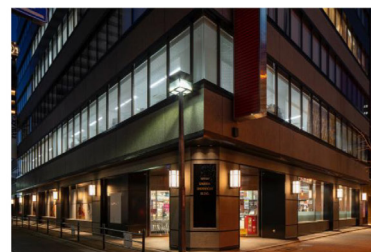
Construction business project examples



Construction example
"RENOA Kita-akabane"



Construction example
"DAIWA LIFENEXT CO., LTD."



Design and construction example
"XYMAX UMEDA SHINMICHII BLDG. renovation"

Source: The Company's results briefing materials

Results trends

Limited impact by COVID-19 other than in Accommodation business

1. FY3/21 results

For FY3/21, the Company reported sales of ¥107,257mn (-3.0% YoY), operating profit of ¥2,376mn (-60.5%), recurring profit of ¥2,207mn (-58.0%), and net profit attributable to parent company shareholders of ¥2,007mn (-41.2%). Compared to the period-start plan, the Company overshot by ¥2,257mn in net sales, ¥2,376mn in operating profit, ¥3,007mn in recurring profit, and ¥2,807mn in net profit attributable to parent company shareholders.

Despite limited impact by COVID-19 on Residential, Solutions, and Construction businesses, Accommodation business struggled significantly due to sustained decline in occupancy rates at "MIMARU" apartment hotels and some suspensions and delays in selling hotel development properties because of state of emergency declaration issuances, restrictions on people entering Japan from other countries, curtailed outside activities, and other impacts. In earnings, operating margin slipped on difficulties in Accommodation business and diminished profitability of new condominiums and other properties in Residential business. Recognition of income taxes-deferred (profit) narrowed the decline rate in net profit. Meanwhile, sales and profits overshot forecasts due to moderately conservative assumptions of pandemic impact at the period-start outlook stage, limited pandemic impact on other businesses besides Accommodation business, and upbeat sales of investment properties and orders of office renovation projects.

FY3/21 results

	FY3/20		FY3/21		
	Amount	% of sales	Amount	% of sales	% of change
Sales	110,559	100.0%	107,257	100.0%	-3.0%
Gross profit margin	18,658	16.9%	15,604	14.5%	-16.4%
SG&A expenses	12,647	11.4%	13,228	12.3%	4.6%
Operating profit	6,010	5.4%	2,376	2.2%	-60.5%
Recurring profit	5,250	4.7%	2,207	2.1%	-58.0%
Net profit attributable to parent company shareholders	3,415	3.1%	2,007	1.9%	-41.2%

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

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Results trends

Accommodation business headed for income recovery too

2. FY3/22 forecasts

For the FY3/22 results, the Company is forecasting sales of ¥115,000mn (+7.2% YoY), operating profit of ¥3,000mn (+26.3%), a recurring profit of ¥2,300mn (+4.2%), and a net profit attributable to parent company shareholders of ¥1,800mn (-10.3%).

FY3/22 forecast

	FY3/21		FY3/22 E		
	Amount	% of sales	Amount	% of sales	% of change
Sales	107,257	100.0%	115,000	100.0%	7.2%
Gross profit margin	15,604	14.5%	17,600	15.3%	12.8%
SG&A expenses	13,228	12.3%	14,600	12.7%	10.4%
Operating profit	2,376	2.2%	3,000	2.6%	26.3%
Recurring profit	2,207	2.1%	2,300	2.0%	4.2%
Net profit attributable to parent company shareholders	2,007	1.9%	1,800	1.6%	-10.3%

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

The Company factors in a certain amount of continuation of decline in occupancy in the Accommodation business due to the impact of COVID-19, but assumes limited impact in other segments besides this area, just as in the previous fiscal year. In earnings, it assumes that improved profitability in Accommodation business is capable of offsetting modest increase in SG&A expenses. The resulting prospect of a slight rise in operating margin should support recovery in earnings. Meanwhile, non-recurrence of income taxes-deferred (profit) booked in the previous fiscal year puts the net profit target at a decline. With FY3/22 as the final fiscal year of medium-term business plan 2021, the Company revised goals as shown because of impact by COVID-19 that was not initially anticipated.

Differences in profit changes by individual businesses, though likely to solidly obtain core profits

3. Results trends by business

Looking at trends by business segments, substantial decline in Accommodation business sales in FY3/21 due to the COVID-19 took a heavy toll. Nevertheless, even though profit slipped in Residential business, Solutions and Construction businesses delivered higher sales and profits and the Company secured overall profits by steadily implementing an aggressive strategy in accordance with longer-term management policy. In FY3/22, it expects a loss again in Accommodation business because of the lingering impact of COVID-19 throughout the period and mixed profit trends in other businesses related to respective changes but continuation of solid core earnings. The details of the results and the results forecast by business are shown below.

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Results trends

FY3/21 results and FY3/22 forecast by segment

(¥mn)

	FY3/20		FY3/21			FY3/22 E		
	Sales	% of sales	Sales	% of sales	% of change	Sales	% of sales	% of change
Residential business	37,369	33.8%	40,700	37.9%	8.9%	44,700	38.9%	9.8%
Solutions business	47,440	42.9%	52,350	48.8%	10.3%	44,100	38.3%	-15.8%
Accommodation business	12,730	11.5%	593	0.6%	-95.3%	12,500	10.9%	2007.9%
Construction business	13,706	12.4%	14,083	13.1%	2.8%	14,200	12.3%	0.8%
Eliminations of inter-Group transactions	-686		-470			-500		
Total	110,559	100.0%	107,257	100.0%	-3.0%	115,000	100.0%	7.2%

	FY3/20		FY3/21			FY3/22 E		
	Operating profit	% of sales	Operating profits	% of sales	% of change	Operating profit	% of sales	% of change
Residential business	1,545	4.1%	1,321	3.2%	-14.5%	2,500	5.6%	89.3%
Solutions business	4,887	10.3%	5,174	9.9%	5.9%	3,900	8.8%	-24.6%
Accommodation business	1,162	9.1%	-3,017	-508.8%	-	-1,700	-13.6%	-
Construction business	349	2.5%	744	5.3%	113.2%	400	2.8%	-46.2%
Eliminations of inter-Group transactions	-1,934		-1,846			-2,100		
Total	6,010	5.4%	2,376	2.2%	-60.5%	3,000	2.6%	26.3%

Note: 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

This segment reported lower profit on a rise in sales in FY3/21 with ¥40,700mn in net sales (+8.9% YoY) and ¥1,321mn in operating profit (-14.5%). Curtailed business activities during Apr-May 2020 under the state of emergency declaration delayed procurement and led to a decline in transfers of renovated condominiums. Demand for home purchases, meanwhile, was healthy, and the volume of new condominium and single-family houses transfers increased. Gross profit margin dropped because of some new condominiums and other properties with lower profitability. In the FY3/22 forecast, the Company projects higher sales and a sharp rise in profits with net sales at ¥44,700mn (+9.8%) and operating profit at ¥2,500mn (+89.3%). Based on an assumption of continued healthy demand for home purchases, it expects increases in transfers of new condominiums and renovated condominiums that declined in FY3/21. However, it anticipates decline in new single-family houses transfer volume after the high level in FY3/21. The Company also generally forecasts improvement in gross profit margin.

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Results trends

Background to the results of the Residential business

(¥mn)

	FY3/20			FY3/21					FY3/22 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)	325	18,185	48.7%	455	20,779	51.1%	130	14.3%	541	27,100	60.6%	86	30.4%
New single-family houses (sections)	70	5,224	14.0%	92	7,920	19.5%	22	51.6%	20	1,800	4.0%	-72	-77.3%
Renovated, pre-owned condominiums		13,179	35.3%		11,248	27.6%		-14.7%		13,700	30.6%		21.8%
Of which, renovated condominiums (units)	317	12,333	33.0%	232	10,474	25.7%	-85	-15.1%	299	13,100	29.3%	67	25.1%
Real estate brokerage and other services		779	2.1%		751	1.8%		-3.6%		2,100	4.7%		179.6%
Total		37,369	100.0%		40,700	100.0%		8.9%		44,700	100.0%		9.8%

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	
	End FY3/20	End FY3/21	FY3/22 E	End FY3/20	End FY3/21	End FY3/20	End FY3/21	End FY3/20	End FY3/21
New condominiums (units)	18.5%	17.8%	19.5%	92	135	150	124	35.6%	22.9%
Of which, uncompleted contracts (units)				83	105				
New single-family houses (sections)	10.8%	10.1%	16.7%	53	10	3	5	3.3%	25.0%
Of which, uncompleted contracts (sections)				50	6				
Renovated condominiums (units)	14.1%	14.0%	14.4%			5	17	1.7%	5.7%

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

Recent demand is exhibiting interest in housing that addresses coexistence with nature and suburban locations that avoid the three Cs (social distancing), though city-center properties near train stations remain popular. The Company's new condominium INITIA Wako acquired ABINC certifications as a "building in harmony with nature." Building features include a common garden with lavish greenery on the property and a clubhouse that it is connected to the residential area via a roofed corridor. This design promotes "harmony with the local ecosystem and regeneration." Renovated condominiums in the "Initia & Renovation" series utilize knowhow from new condominium business to design space suited to changes in workstyles and lifestyles, such as semi-single rooms.

New townhouses INITIA TERRACE Yoyogiuehara and INITIA TERRACE kotakemukaihara are maisonette-type low-rise residences with the autonomy of a single-family house and security of a common dwelling and have popular locations with highly convenient transportation access and quiet living environments among single-family houses. In new active-senior condominiums, the Company is selling INITIA GRAND Sapporo Naebo and INITIA GRAND Sapporo East units and proposing second-stage living and a new lifestyle as a "Relife Project." Amid continued robust demand for new active-senior condominiums, the Company is implementing projects in Hokkaido, Fukui Prefecture, Fukuoka Prefecture, and other urban redevelopment projects.

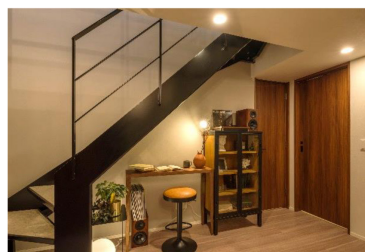
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Results trends

Tranquil living environment “INITIA TERRACE Yoyogiuehara”



“INITIA TERRACE Yoyogiuehara” exterior/room photos
Source: The Company's results briefing materials

(2) Solutions business

This segment reported higher sales and profits in FY3/21 at ¥52,350mn in net sales (+10.3% YoY) and ¥5,174mn in operating profit (+5.9%). Transfers of entire buildings increased in investment property business with upbeat demand, and property leasing management and other business sales steadily improved. In property sub-leasing business, conditions were modestly unstable with increase in the vacancy rate due to impact by the period of refraining from sales activities and other factors and renewed upswing on a rise in new offered properties despite recovery following completion of the restraint period. In earnings, gross profit margin climbed on strong inquiries for investment properties from overseas and other investors against a backdrop of global monetary easing. In the FY3/22 forecast, the Company projects lower sales and profits at ¥44,100mn in net sales (-15.8%) and ¥3,900mn in operating profit (-24.6%). This outlook assumes that operating conditions should not significantly worsen and demand for investment properties is healthy but anticipates decline in transfers of entire buildings in investment property business that reached a strong level in FY3/21. Despite the necessity of closely monitoring risk of weakening of commercial and office building occupancy rates, investment property results might overshoot depending on customer trends.

Background to results in the Solutions business

(¥mn)

	FY3/20			FY3/21					FY3/22 E				
	Number of properties transferred/ number of units sub-leased	Sales	Percentages of total sales	Number of properties transferred/ number of units sub-leased	Sales	Percentages of total sales	Increase/ decrease in number of deliveries	Sales increase/ decrease rate	Number of properties transferred/ number of units sub-leased	Sales	Percentages of total sales	Increase/ decrease in number of deliveries	Sales increase/ decrease rate
Real estate for investors (properties)		31,067	65.5%		35,747	68.3%		15.1%		27,600	62.6%		-22.8%
Of which, entire buildings	19	20,615	43.5%	21	30,885	59.0%	2	49.8%	10	19,300	43.8%	-11	-37.5%
Real estate rentals operation and management	10,633	15,466	32.6%	10,226	15,845	30.3%	-407	2.5%	10,218	16,200	36.7%	-8	2.2%
Real estate brokerage and other services		906	1.9%		758	1.4%		-16.3%		300	0.7%		-60.4%
Total		47,440	100.0%		52,350	100.0%		10.3%		44,100	100.0%		-15.8%

	Gross profit margin (%)			Completed contracts		Contracts progress rate (%)	
	FY3/20	FY3/21	FY3/22 E	End FY3/20	End FY3/21	End FY3/20	End FY3/21
Entire buildings (Real estate for investments) (properties)	12.6%	13.8%	13.9%	5,329	7,518	20.7%	39.0%

Note: Real estate for investments covers entire buildings, joint-investment properties, rent income, and land sales.

Note: The gross profit margin does not include the inventory valuation loss

Note: The contract progress rate refers to sales progress at period-end versus the next-period results outlook.

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

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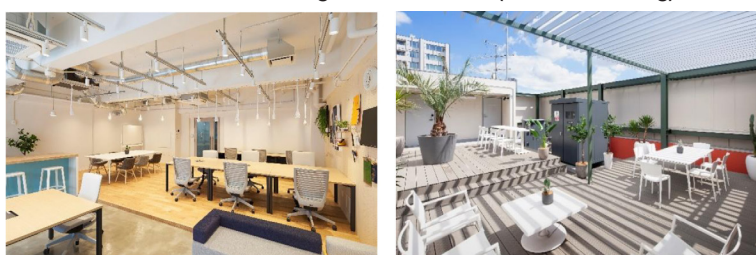
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Results trends

Similar to Residential business, the Solutions business is also seeing stronger demand driven by telework and other workstyle reforms. REID-C Ebisu Building, a fully renovated rental building with spatial design that considers the perspective of people who are working, is a furnished office for interior and furniture that shortens the period needed before entry and entry and departure costs. It expands workspace to outdoors as support for avoiding the 3Cs (social distancing), workstyle flexibility, and enhanced productivity. The Company opened MID POINT Kawasaki, its fifth project for rental office space that brings work and home into closer proximity. While this is a rental office project that the Company had been developing prior to the COVID-19, it arranged personal workspaces, a lounge to encourage communication among occupants, and other features to address fast-growing demand for remote work and satellite offices.

“REID-C Ebisu Building” avoids the 3Cs (social distancing)



Inside workspace and outside workspace “Room B” at “REID-C Ebisu Building”

Source: The Company’s results briefing materials

(3) Accommodation business

This segment incurred very weak results in FY3/21 at ¥593mn in net sales (-95.3% YoY) and a ¥3,017mn operating loss (decline of ¥4,179mn), mainly due to rescheduling that delayed sales of hotel development properties to the next fiscal year or later and steep decline in inbound accommodation demand due to the impact of COVID-19. Despite temporary pick-up from the “Go To Campaign,” pandemic spread affected results throughout the period. The full-year occupancy rate hence was low, and the average occupancy rate and average price per room declined. In “MIMARU” apartment hotels, the Company steadily resumed operations as demand recovered and was operating 12 sites at the end of March 2021. In the FY3/22 forecast, the Company targets ¥12,500mn in net sales (21-fold increase) and a ¥1,700mn operating loss (¥1,317mn profit increase). This outlook factors in sales of hotel development projects delayed from FY3/21 and assumes incremental recovery of hotel operations premised on thorough measures to prevent infections from April 2021, supporting sales and profit gains. Nevertheless, since it does not envision recovery to pre- COVID-19 levels at the end of FY3/22, the segment is likely to need more time to restore an operating profit.

Background to the apartment hotels’ results

	FY3/20		FY3/21		FY3/22 E	
	(hotels)	(rooms)	(hotels)	(rooms)	(hotels)	(rooms)
Number of developments						
Pre-opening	18	992	14	770	4	243
Completed developments	15	760	16	800	26	1327
Suspended operations	0	0	4	245	2	132
Total	33	1,752	30	1,570	30	1,570

	FY3/20	FY3/21*	FY3/22 E*
Average occupancy rate (%)	64.9	24.6	53.9
Average room unit price (¥1,000)	24	15	19
Average length of stay (days)	3.0	3.8	2.8

* Calculated using the number of rooms for sale excluding suspended facilities

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

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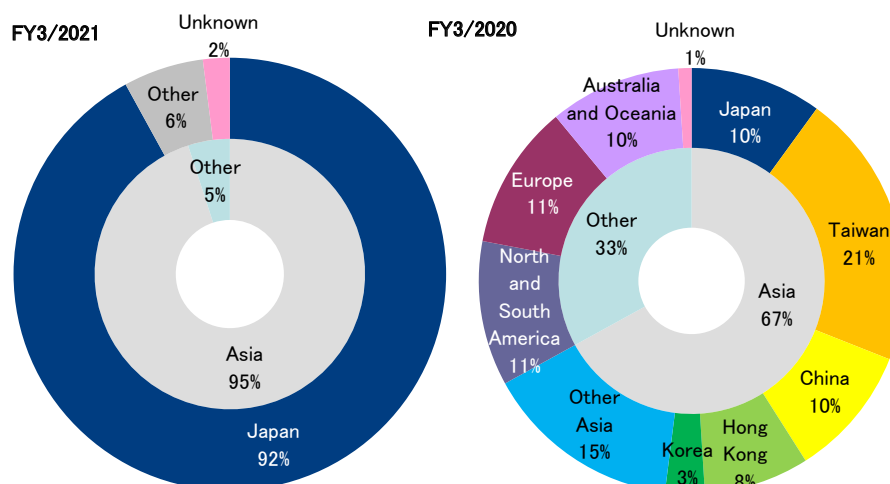
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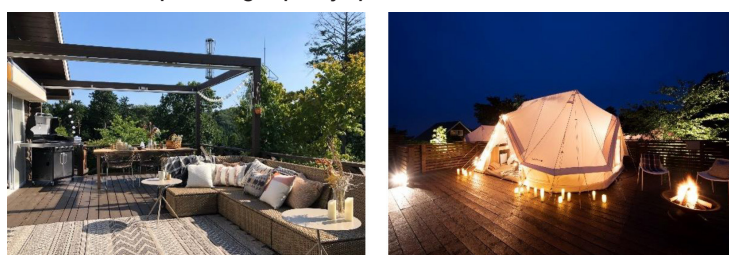
Apartment hotel occupants by nationality



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

The Company hopes to maintain and improve occupancy with domestic demand until inbound lodging demand recovers and hence is strengthening promotions aimed at acquiring domestic demand, such as families, groups, and school trips. It is also working to create added value and raise awareness through collaboration with designers and others. Meanwhile, it opened ETOWA KASAMA, an outdoor resort that provides special high-quality space. This business aims to create new value through renovation of idle public facilities owned by the national government and local government entities. The Company is currently moved forward with its second project in Kisarazu City (Chiba Prefecture). Since Accommodation business income is already bottoming out, key points are vaccination progress in the shorter term and recovery of inbound accommodation demand in the longer term.

Special high-quality space "ETOWA KASAMA"



"ETOWA KASAMA"'s outdoor living and tents & wide deck

Source: The Company's results briefing materials

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Results trends

(4) Construction business

In the FY3/21 results, sales were ¥14,083mn (+2.8% YoY) and operating profit was ¥744mn (+113.2%). Demand from office projects and building projects has remained healthy during the COVID-19, and orders of highly profitable large office projects lifted gross profit margin. In the FY3/22 forecast, the Company expects ¥14,200mn in net sales (+0.8% YoY) and ¥400mn in operating profit (-46.2%). Despite the assumption of continued solid demand for office projects and building projects, this outlook anticipates lower profit on a rise in sales, including backlash from the previous fiscal year. In FY3/21, the Company completed and launched RENOA Kita-akabane, a large-scale renovation from a company dormitory to condominiums. The project involved design and building a common area to encourage communication and customization of space in individual units. The Company handled construction of an outdoor sports facility and museum that has permanent displays with inclusive designs.

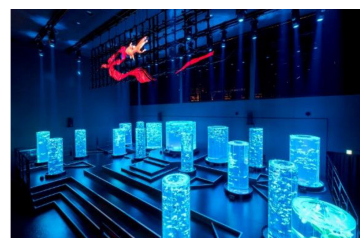
Facilities with inclusive designs



"MIFA Football Park Tachikawa"



"TOKYO SPORT PLAYGROUND SPORT x ART"
(Shin-Toyosu, Tokyo; Design supervised by Nike Japan Group LLC)



"Art Aquarium Museum" (Nihonbashi, Tokyo)

Source: The Company's results briefing materials

Longer-term management policy

Likely to miss medium-term business plan 2021 goals due to COVID-19 impact

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

COVID-19 had a heavy impact on the world in 2020. As explained above, it also strongly impacted the Company's Accommodation business, and the Company is still implementing responses and measures. Due to these conditions that affected the medium-term business plan 2021, which the Company positioned as the first step toward a new stage of bolstering investments and strategies for further advances, management revised numerical goals. The Company intends to continue longer-term management policy and strategic policies from the medium-term business plan 2021 period along with the additional theme of responding to major changes in living styles, workstyles, and other value frameworks driven by the COVID-19. FISCO expects the Company to target pre-revision goals again relatively soon considering progress in vaccinations.

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Medium- to long-term management policy

Longer-term fundamental policies unchanged by the pandemic

2. Longer-term management policy

As its longer-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 2021 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.

The backbone of this longer-term management policy is the Next GOOD mission whereby the Company hopes to serve as a presence that provides “future value” to customers and society. What is considered to have a particularly important meaning within the longer-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. This includes major changes in living styles, workstyles, and other value frameworks driven by the COVID-19.

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Medium- to long-term management policy

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. Furthermore, each business promotes initiatives that address revised lifestyles and other value frameworks due to the spread of infections during the pandemic, such as telework and health management.

* 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 profit 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

Despite COVID-19 impact, however, strategic direction of the individual businesses, including Accommodation business, should not significantly change. If anything, telework and other ideas for dealing with the COVID-19 offer an opportunity to deliver new added value. 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.

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 investment properties, the Company intends to continue diversifying products, revitalizing second-hand stock, and strengthening brands and also developing products suited to diversified workstyles and the new-normal era.

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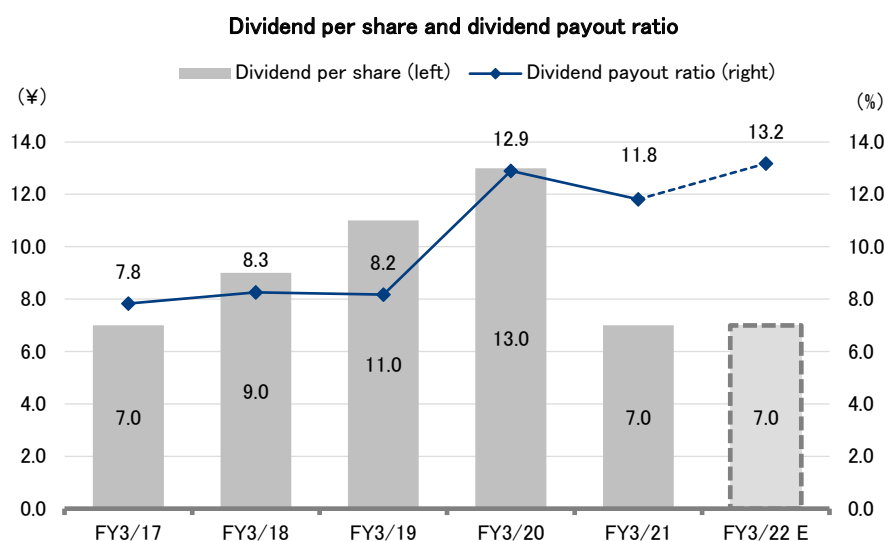
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Medium- to long-term management policy

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). Nevertheless, in the absence inbound accommodation demand for the time being, the Company plans to promote sales to Japanese customers. 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 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. In FY3/21, the Company paid a ¥7/share period-end dividend that comprehensively factors in the management environment and other aspects. In FY3/22, it plans to pay a ¥7/share period-end dividend considering the earnings outlook.



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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