COMPANY RESEARCH AND ANALYSIS REPORT

Arealink Co., Ltd.

8914

Tokyo Stock Exchange Standard Market

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Summary

Completes structural reform of stock business, accelerates unit openings. Aims to achieve medium-term management plan through rapid storage business expansion

Arealink Co., Ltd. <8914> (hereafter, also "the Company") is the leading company in the self-storage industry known for its Hello Storage brand. Through self-storage, the Company is aiming to contribute to better lifestyles for people. The Company aims to accelerate growth through its stock business which generates ongoing revenue from customers. While maintaining a management structure with a small number of highly skilled employees, its main business is self-storage management, which generates stable earnings, and it intends to lead further advancement of the industry by continuing to grow regardless of economic fluctuations. In addition to its mainstay self-storage business, it conducts the land rights consolidation business and other operational services business. It is focusing on pursuing ESG management to solve social issues. The Company was listed on the Second Section of the Tokyo Stock Exchange (hereafter, "TSE") in May 2020, and moved to the Standard Market in line with the TSE's recategorization of market segments in April 2022.

1. Summary of FY12/22 results

In the FY12/22 results, net sales were ¥20,878mn (up 1.5% year on year (YoY)), operating income was ¥3,742mn (up 22.9% YoY), ordinary income was ¥3,758mn (up 24.9% YoY), and net income was ¥2,883mn (down 9.1% YoY), with net sales and profits coming in above the Company's initial forecasts across the board. By segment, the occupancy rate of the mainstay self-storage management business was favorable, reaching the highest level recorded since the Company's listing, which helped boost sales and profits in the storage business and drive the Company's strong earnings. The land rights consolidation business saw a decline in sales but a turn to profitability due to business quality improvement. Net income decreased due to a rebound from the recording of a gain on reversal of provision for loss on repurchases of ¥1,610mn as extraordinary income which had been temporary profit in the previous fiscal year. As a result, the equity ratio rose to 50.5% (from 49.7% in the previous fiscal year), achieving the Company's target of 50%, and indicating a high degree of financial soundness in excess of the FY3/22 average of 32.9% for the real estate industry on the TSE First Section. Return on Assets (ROA) was 8.6%, and Return on Equity (ROE) was 13.1%, exceeding the averages for the real estate industry on the TSE First Section of 3.9% and 8.1% respectively, showing that the Company also sustained a high level of profitability. The Company is also positive toward shareholder returns. It significantly increased the dividend payout to reflect strong earnings, paying an annual dividend per share of ¥69.0 (up ¥22.0 YoY), for a dividend payout ratio of 30.3%.

2. FY12/23 results outlook

For the FY12/23 results, the Company forecasts net sales of ¥21,800mn (up 4.4% YoY), operating income of ¥4,050mn (up 8.2% YoY), ordinary income of ¥3,930mn (up 4.6% YoY), and net income of ¥2,600mn (down 9.8% YoY). The Company plans to continue to increase sales and profits in the mainstay self-storage business, and to achieve sharp growth by accelerating unit openings nationwide for its core self-storage management business. The Company expects the land rights consolidation business to generate higher sales and profit from steady growth through the concentration of management resources in core businesses. The increase in ordinary income is projected to be small in comparison to operating income due to the expectation of a decrease in non-operating income. The Company expects income to fall from the absence of special factors such as gain on liquidation of investment securities and income taxes – refund recorded in the previous fiscal year. Based on these factors, it forecasts an annual dividend per share of ¥62.0 (down ¥7.0 YoY) and a dividend payout ratio of 30.2%. Since the Company has a strong tendency to announce conservative forecasts in the initial plan for the fiscal year, we at FISCO believe it is highly likely to achieve the forecasts as long as the business environment does not deteriorate.

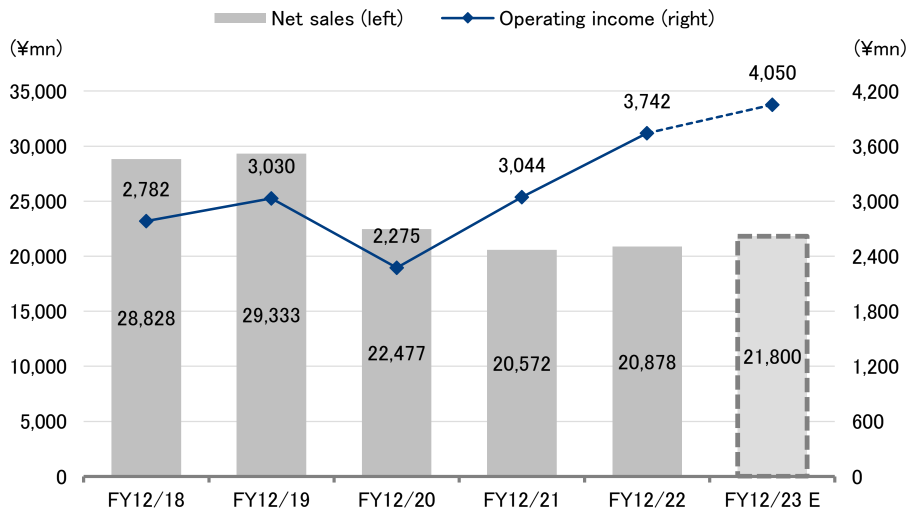
3. New medium-term management plan

In February 2023, the Company announced Medium-Term Management Plan 23-25, stating that the previous Medium-Term Management Plan 22-24 would be discontinued after a single year due to the Company expecting to achieve its target profit in FY12/23, the second year of the plan, and also due to its switch to a growth strategy centering on the storage business. The new management targets are for net sales of ¥28,100mn (up 34.6% compared to FY12/22), operating income of ¥5,500mn (up 47.0%), and ordinary income of ¥5,350mn (up 42.4%) in FY12/25, the plan's final year. In FY12/22, stock business profit centering on storage management increased to 90% of all profit, completing the structural reform of cumulative-type business. Going forward, the Company targets increased market share by accelerating unit openings to boost sales, as well as steady progress on profit margin improvement. While the new medium-term management plan's management targets are ambitious, we at FISCO think the numbers are realistic since the self-storage market in Japan is expected to have substantial growth potential. It should also be noted that the Company is proactively promoting ESG management while pursuing profits as the industry leader. Future ESG initiatives are also key in that the tendency for investors, mainly institutional investors, to invest in companies that take ESG into consideration has been strengthening in recent years.

Key Points

- The leading company in the self-storage industry. Is aiming for profit growth in the long term centered on the stock self-storage business
- Mainstay self-storage management performed well in FY12/22, beating initial forecasts for both sales and profit
- In FY12/23, will promote rapid expansion and rapid growth of self-storage business, but earnings forecasts is cautious
- Announced the new medium-term plan, advancing the management plan focused on profit growth underpinned by self-storage management

Results trends



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

Company overview

Growth from the Hello Storage series of container storage and trunk rooms

1. Company overview

The Company was founded by President & CEO Naomichi Hayashi. It is the leading company in the self-storage industry, is listed on the TSE Standard Market, and has a corporate philosophy of "Provide convenience, enjoyment, and excitement to the world." In addition to its core business offering rental storage space (trunk rooms) under the Hello Storage brand throughout Japan, the Company is also engaged in land rights consolidation business, office business, and asset management business, among others.

Under the leadership of President Hayashi, the Company is continuing to achieve steady growth not affected by economic conditions by leveraging the three strengths described below through a flexible management strategy that responds to environmental changes.

The first strength is that the Company's self-storage business has the leading share in the industry for the number of units, approximately 17% to 18%. In the self-storage industry, there is an overwhelmingly large number of small-scale companies with market shares of less than 1%. Also, in the US, where this industry developed ahead of Japan, about 13.5mn or 10.6% of total households use self-storage, but in Japan, this number is about 600,000, which equates to only about 1.1% of the number of total households. In recent years, needs for storage have risen centered on metropolitan areas, and it can be said that the self-storage market is expected to grow greatly in the future. The Company's business is centered on self-storage management that generates stable earnings, and it is targeting a market share of 50% in the medium term.

The second strength is that the Company's financial structure is highly sound. In FY12/22, its equity ratio was 50.5%, greatly exceeding the 32.9% average for the real estate industry on the TSE First Section in FY3/22, and it seems that it is aiming to raise the ratio to the 50% range in the medium term. It can be said that another of its strengths is that it is one of only several listed companies that conduct a self-storage business for individuals. The Company uses its excellent financial structure as a weapon to develop its business under favorable conditions.

The third strength is that the Company is highly profitable. Specifically, at the end of December 2022, it had 71 employees (excluding directors, temporary employees, and dispatched employees), so its head office costs are small under a management structure with a small number of highly skilled employees. Also, in FY12/22, ROA was 8.6% and ROE was 13.1%, which are higher than the averages of the real estate industry on the TSE First Section in FY3/22 of 3.9% and 8.1% respectively. The Company is aiming to further grow earnings and improve profitability by advancing the new medium-term management plan.

2. History

The Company was established in Funabashi City, Chiba Prefecture, in 1995 as WELL's Giken K.K. by Hayashi, the President and CEO, in order to launch a contracting business for the WELL's 21 cross-industrial exchange stations.

In the year after its establishment (1996), it launched a property leasing business and Hello Parking, a coin-operated parking lot business, and entered the real estate business. Subsequently, continuing on from Hello Parking, it expanded its business area by launching a series of Hello Storage businesses, including the storage space businesses of Hello Container and Hello Trunk; Hello Monthly, a monthly apartment rental business; and Hello Office, an office rental business.

The Company, which develops the Hello Storage brand nationwide, concluded a licensing agreement in 2016 to development properties in collaboration with the popular character Hello Kitty.

The Company, which had been developing the wide-ranging Hello Series, set the self-storage business (container storage and trunk rooms), which has the advantages of little competition as a niche market and low running costs as a non-residential type of real estate, as its core business, and it has aimed to expand and strengthen its business under the slogan of being "overwhelmingly No. 1 for share and quality." On the other hand, alongside changes in the market environment, it has reviewed its growth strategy, which has been dependent on buying and selling (brokerage), and is switching to a policy of aiming for stable growth centered on self-storage management. It announced Medium-Term Management Plan 22-24 in February 2022, but established Medium-Term Management Plan 23-25 in February 2023 because results sharply topped targets in the second fiscal year under the previous plan and because of a switch to a growth strategy centering on the self-storage business.

The Company was listed on the TSE Mothers Market in August 2003, and its listing was upgraded to the TSE Second Section in May 2020. Also, it moved to the Standard Market in line with the TSE's recategorization of market segments in April 2022.

History

Date	History.
April 1995	Established WELL's Giken K.K. for contracts for the WELL's 21 warehousing office. Launched a contracting business for WELL's 21 cross-industrial exchange stations.
April 1996	Launched a property leasing business (currently Mister Kashichi)
June 1996	Launched Hello Parking, a coin-operated parking lot business
March 1999	Launched Hello Container, a business for installing and leasing storage containers on vacant land
October 1999	Changed company name to Mister Kashichi Co., Ltd.
August 2000	Launched a coin-operated laundry business
September 2000	Conducted an absorption merger with Sysnet K.K. (property leasing business was transferred from Sysnet). Changed company name to Arealink Co., Ltd.
December 2000	Acquired all the shares of Hayashi Soken Inc., and made it a wholly owned subsidiary (absorption merger in April 2002). Launched Hello Monthly, a weekly/monthly apartment rental business.
February 2001	Launched the Hello Trunk business using vacant buildings for storage rental space
September 2002	Launched a stock management business to provide management services for the land and properties owned by the Company (currently, the Property Management Service business)
January 2003	Launched the Hello Renewal business to renovate old buildings to add value and improve management efficiency (currently, the Property Revitalization & Liquidation Service business)
June 2003	Opened Hello Bike BOX, indoor parking for motorcycles
August 2003	Listed on TSE Mothers
January 2004	Launched the Hello Office business to lease SOHO utilizing vacant buildings
February 2005	Acquired Space Products K.K., in the same industry that manages Rakuchin BOX
November 2005	Exceeded 10,000 units in the Hello Storage business
January 2008	Exceeded 30,000 units in the Hello Storage business
June 2014	Exceeded 50,000 units in the Hello Storage business
July 2015	Exceeded 60,000 units in the Hello Storage business
August 2015	Launched 2×4 (Two by Four) Trunks, suburban indoor-type rental spaces
June 2016	Concluded a licensing agreement to develop properties in collaboration with Hello Kitty
December 2016	Relocated the Head Office to Sotokanda, Chiyoda-ku, Tokyo, its current location
November 2017	Exceeded 80,000 units in the Hello Storage business
November 2018	Exceeded 90,000 units in the Hello Storage business
May 2020	Listing was upgraded to the TSE Second Section
February 2021	Announced Medium-Term Management Plan 21–23
February 2022	Announced Medium-Term Management Plan 22–24
April 2022	Moved to the Standard Market in line with the TSE's recategorization of market segments
February 2023	Announced Medium-Term Management Plan 23–25

Source: Prepared by FISCO from the Company's website and securities report

Business description

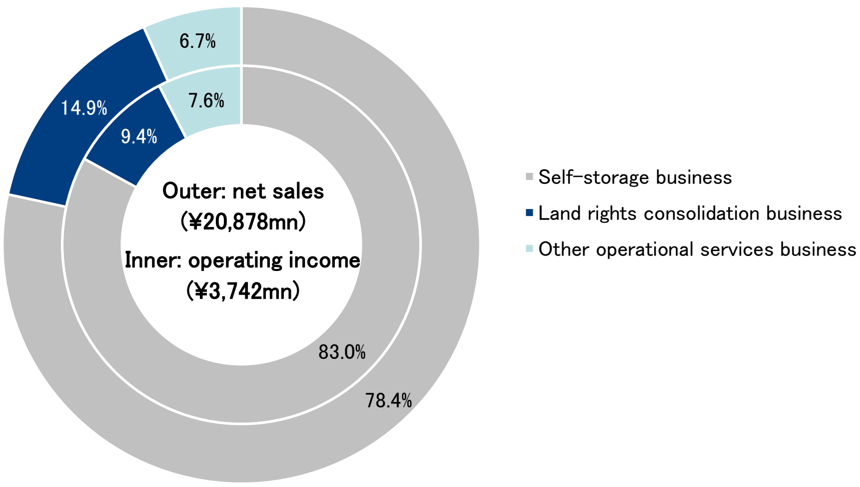
Self-storage management is the core business

1. Business segments

The Company's business is comprised of three business segments: 1) self-storage business, which is comprised of two sub-segments, self-storage management and self-storage brokerage; 2) land rights consolidation business, which includes buying and selling of land with limited proprietary rights and properties and obtaining land with limited proprietary rights lease income, and 3) other operational services business, such as rental offices and asset management.

Looking at the breakdown of net sales by segment in FY12/22, the self-storage business provided 78.4%, land rights consolidation business 14.9%, and other operational services business 6.7%. Turning to the breakdown of operating income (before deducting administrative expenses), the self-storage business provided 83.0%, the land rights consolidation business 9.4%, and other operational services business 7.6%. This demonstrates that the self-storage business, is the Company's core business for both net sales and operating income.

Breakdown of net sales and operating income by business segment (FY12/22 results)



Note: Breakdown of operating income is before deducting administrative expenses
Source: Prepared by FISCO from the Company's financial results

2. Self-storage business

The Company is achieving growth with the self-storage business at its core, and this business also provides an overwhelming share of earnings. This business develops the Hello Brand in various service formats, including for self-storage, parking lots, and rental offices, and is divided into two sub-segments, self-storage management and self-storage brokerage. Self-storage management is a business for the management, tenant recruitment, and administration of rental storage spaces, and is a stable cumulative-type income that generates ongoing revenue from customers. Conversely, self-storage brokerage is a business for the ordering and sales of storage as an investment product, and it can be said to generate temporary, flow-type income. The Company plans to maintain self-storage management profitability by curbing profit margins at the time of sale on the one hand, and accepting management from customers when conducting sales as self-storage brokerage. Although temporary income from self-storage brokerage will not be recorded because of this, it is expected to lead to growth in overall self-storage business sales.

Hello Storage, which is the main brand in the self-storage business, has the No. 1 share in the industry for the number of properties for trunk rooms for home and company usage. Large and small indoor spaces are partitioned, and various sizes and product types are prepared and offered at reasonable prices 24-hours a day that enable the provision of services that meet the diverse needs of customers. Its product types include outdoor-type trunk rooms (container type), indoor-type trunk rooms (inside a building or entire building type), Bike Box individual motorbike storage, and business storage two-story maisonette type.

Of these, outdoor-type trunk rooms are the Company's main product, and it manages a network of storage units nationwide from Hokkaido in the north to Kyushu in the south, offering storage spaces that utilize durable containers used for maritime transportation. Features include the ability to park cars directly in front of containers, 24-hour access, and an abundance of substantial spaces ranging in size from small to large. The Company plans for steady growth by using this as a mainstay product.

The indoor-type trunk rooms are mainly located in the central Tokyo area and have features including safe and secure 24-hour access thanks to robust security provided by a major security company, and an abundance of popular medium sizes. With some exceptions, they are also equipped with air conditioning systems. In cases where the Company renovates various spaces, such as existing buildings (entire floors or part of a floor) and warehouses, into trunk rooms for self-storage operations, the basic mechanism is the same as that for the outdoor-type containers. As for indoor-type trunk rooms utilizing an entire building, the Company offers indoor storage spaces in buildings designed specifically for trunk rooms. These trunk rooms are compact with a smart design that eliminates waste, and have exteriors that are adapted to their surrounding environments. In addition to featuring construction designed specifically for trunk rooms, 24-hour access, clean exteriors and interiors, robust security via a major security company, and a large number of units in a variety of sizes, these next-generation trunk rooms are equipped with air conditioning and elevators and offer free parking. The Company plans for long-term expansion given the strong demand for indoor trunk rooms centering on urban areas.

The Company added small-scale wooden structure Storage Mini to its indoor trunk rooms from 2021. These are three-story wooden structures with around 40 rooms. The structures contain elevators, each floor has air conditioning, and rooms are divided by partitions, meaning temperature and humidity can be maintained at a constant level. Storage Mini sites are smaller than existing trunk rooms, and are expected to draw demand in provincial cities with a population of 50,000-100,000, and station-front and suburban apartment areas that are popular with new families.

Bike Box individual motorbike storage products are independent box-type parking spaces exclusively for users with contracts. They allow for the installation of several locks to enhance security. They are also equipped with storage shelves and wide ladder rails to facilitate smooth storage, combining safety, functionality, and convenience.

The Company has offered business storage two-story maisonettes combining warehouse, office, residential, and parking space functions since 2020, and plans to develop these focusing on the suburbs.

Hello Storage product lineup

Outdoor-type trunk rooms container type

Indoor-type trunk rooms (inside a building)

Indoor-type trunk rooms (entire building)

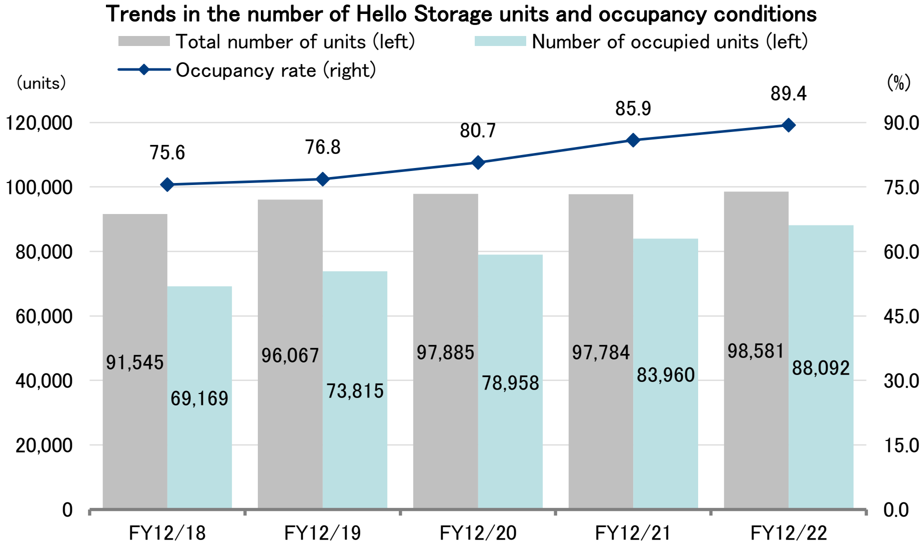
Bike Box individual motorbike storage

Business storage two-story maisonette

Source: The Company's website and results briefing materials

The number of Hello Storage units had been steadily increasing each year, but the number of newly opened units in 2021 declined due to impact from the Company temporarily suspending property openings in 2020. As a result, the total number of Hello Storage units were down 101 units compared to the end of the previous fiscal year to 97,784 units in FY12/21. Conversely, the Company reaccelerated openings in FY12/22, resulting in a 797 unit increase to 98,581 units, and the occupancy rate rose 3.5 percentage points to 89.4%, reaching a record high since the Company's listing. Also, it seems storage needs are growing as remote work has increased alongside the spread of the novel coronavirus (hereinafter, "COVID-19") and there is an increased need for securing storage spaces at home.

Trends in the number of Hello Storage units and occupancy conditions



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

3. Land rights consolidation business

The land rights consolidation business is a business that resolves the issues of landowners and leasehold rights holders through the trading of complex land with limited proprietary rights. Income is generated mainly from the trading of land with limited proprietary rights and real estate and lease income from land with limited proprietary rights, so it generates mainly temporary flow-type income.

The business model for the land rights consolidation business is as follows. As a general practice, a party constructs a building on land that is rented. In this case, the owner of the building has the right to use the land (leasehold rights), and is obligated to pay rental fees as compensation for using the land. On the other hand, the landowner that owns the land cannot freely use the land as their leasehold rights are restricted. Land with attached leasehold rights in this way is called land with limited proprietary rights. Although the landowner's use of the land is restricted, they have the right to receive rental income, and this right to rent the land is called "land with limited proprietary rights."

Situations where the owners of the land and building differ create twisted and complex rights relationships, and this also affects the price of the land, so typically the leasehold rights portion is deducted. In this business, the Company acquires land with limited proprietary rights from landowners and generates income by selling those rights to building owners, while also arranging the rights relationships. Although there was temporarily an increase in dead stock, measures to organize this stock have now been completed, so a contribution to earnings is expected.

Overview of the land rights consolidation business

Source: Reprinted from the Company's website

4. Other operational services business

The other operational services business is a business based on rental income, such as from offices and asset management, and it generates cumulative-type income. Rental offices are rented in Tokyo's 23 wards as offices for use by a small number of people under the Hello Office brand, and demand for them is growing alongside the increase in remote working due to COVID-19. Asset management is a business for managing rentals of the real estate the Company owns, but its policy is to maintain the current situation in consideration of unstable market conditions and factors such as the risk that land prices will fall. Furthermore, rental meeting rooms were rented by the hour in major metropolitan areas under the Hello Rental Meeting Room brand, but from the viewpoint of business concentration, the Company withdrew from this business in December 2020. The Company discontinued its parking lot business in March 2021.

Results trends

In FY12/22 results, net sales and profits were both above initial forecasts, and mainstay self-storage management did well

1. Summary of FY12/22 results

In the FY12/22 results, net sales were ¥20,878mn (up 1.5% year on year (YoY)), operating income was ¥3,742mn (up 22.9% YoY), ordinary income was ¥3,758mn (up 24.9% YoY), and net income was ¥2,883mn (down 9.1% YoY). Net sales and profits outpaced the Company's initial forecasts by 1.3% for net sales, 13.4% for operating income, 17.5% for ordinary income, and 37.3% for net income. By segment, the occupancy rate of the mainstay self-storage management business was favorable, reaching the highest recorded level since the Company's listing which helped boost sales and profit for the segment, with segment profit improving by almost 20%. By contrast, although the land rights consolidation business saw a decline in sales, it experienced a turn to profitability due to business quality improvement. The reason why net income decreased while operating income and ordinary income increased was due to the absence of a recording of ¥235mn of income taxes - refund from an income tax reassessment in the previous fiscal year, and the absence of a gain on reversal of provision for loss on repurchases of ¥1,610mn that was recorded as extraordinary income in FY12/22.

Summary of FY12/22 results

(¥mn)

	FY12/21		FY12/22			YoY		vs. forecast	
	Results	vs. sales	Initial forecasts	Results	vs. sales	Change	Rate of change	Difference	Achievement rate
Net sales	20,572	100.0%	20,600	20,878	100.0%	305	1.5%	278	1.3%
Gross profit	6,035	29.3%	-	6,717	32.2%	682	11.3%	-	-
SG&A expenses	2,990	14.5%	-	2,975	14.3%	-14	-0.5%	-	-
Operating income	3,044	14.8%	3,300	3,742	17.9%	697	22.9%	442	13.4%
Ordinary income	3,009	14.6%	3,200	3,758	18.0%	749	24.9%	558	17.5%
Net income	3,171	15.4%	2,100	2,883	13.8%	-288	-9.1%	783	37.3%

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

The results by segment are as follows.

(1) Self-storage business

In the self-storage business, net sales were ¥16,366mn (up 5.8% YoY) and operating income was ¥4,084mn (up 19.6%), a strong performance. Also, this business's share of total results increased to 78.4% of net sales (75.2% in the previous fiscal year) and 83.0% of operating income (80.6%), and its operating income margin rose to 25.0% (22.1%), so it grew significantly as the core business. The Company's policy since FY12/19 has been for the earnings foundation to be self-storage management, a cumulative-type business that stably accumulates monthly income, and it can be said that the results of this policy have materialized.

Profitability increased at the mainstay self-storage management business, helped by the occupancy rate rising 3.50 percentage points to 89.36%, reaching the highest recorded level since the Company's listing in 2003. The main factors boosting the occupancy rate were a reduction in the size of unit sites and the steady acquisition of orders by improved product recognition, etc. The Company also steadily grew the number of occupied units by capturing home adjustment demand arising from remote work and stay-at-home-lifestyles resulting from COVID-19. Furthermore, in addition to the improvement in the occupancy rate from factors such as occupancy rates at large-scale properties that were opened from 2016 to 2018 rising over time, occupancy rated at new properties also rose due to enhanced accuracy with regard to openings from 2019. Yet another factor that contributed to the higher occupancy rate was that although the Company opened 2,915 units in FY12/22, periodic closures occurring each year resulted in the total number of Hello Storage units increasing only slightly by 797 units compared to the end of the previous fiscal year to 98,581 units. Profits increased significantly in self-storage management, with contributing factors such as repurchases of containers that were advanced over the roughly two years from 2020 having a beneficial effect on profit margins, the switch to the policy of operating properties it owns that have higher profitability, and restricting advertising campaigns offering discounts such as no initial costs. As operating properties that it owns require no rent, profitability is higher than leasing containers out after external sales. The Company ended purchases of containers after it had purchased approximately 40% of containers at target properties by the end of FY12/21.

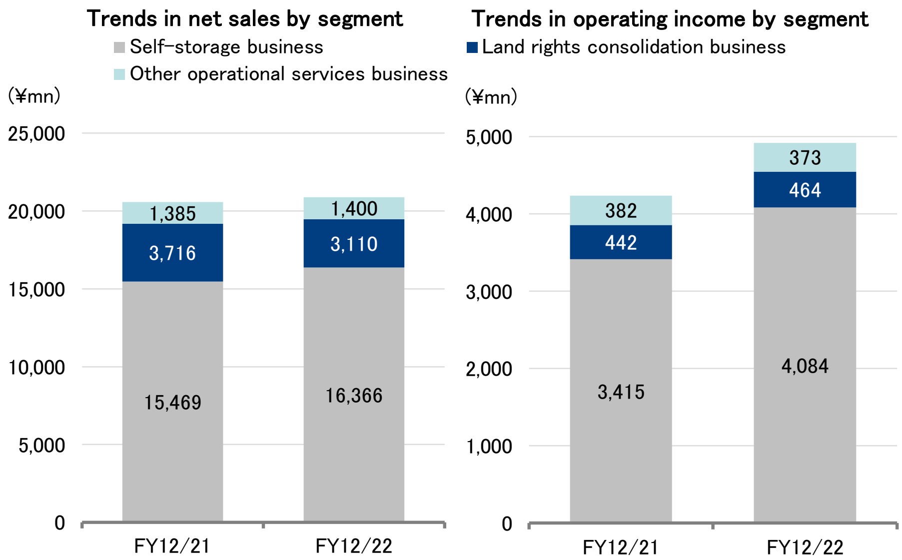
Self-service brokerage continued to post a small loss due to the recording of personnel expenses in the openings and construction department, but as this only makes up a small part of the self-storage business, the impact on the overall business is minor.

(2) Land rights consolidation business

In the land rights consolidation business, net sales were ¥3,110mn (down 16.3% YoY) and operating income was ¥464mn (up 5.0%). This business's share of total results was 14.9% of net sales (18.1% in the previous fiscal year) and 9.4% of operating income (10.4%), while its operating income margin was 14.9% (11.9%). The Company switched its policy from a focus on quantity to quality, and took steps to optimize the scale of the business, resulting in higher profit despite lower sales. Measures to deal with dead stock from several years ago, and changes to operational rules such as a revision of purchase criteria have improved business quality and returned the business to profit growth, so the Company has resumed procurement in earnest.

(3) Other operational services business

In other operational services business, net sales were ¥1,400mn (up 1.1% YoY) and operating income was ¥373mn (down 2.2% YoY). This business's share of total results was 6.7% of net sales (6.7% in the previous fiscal year), and 7.6% of operating income (9.0%), while its operating margin was 26.7% (27.6%). In the asset management business, sales and profit declined due to cancellations of leased properties, but occupancy remained high. In the office business, sales increased as occupancy conditions were solid, but profits decreased due to the impact of costs for opening two new properties. The Company's withdrawal from the parking lot business caused sales to fall temporarily, but this can be viewed as part of the move towards focusing management resources on the highly profitable self-storage business.



Note: The breakdown of operating income is before deducting administrative expenses
Source: Prepared by FISCO from the Company's financial results

2. Financial condition and management indicators

At the end of FY12/22, current assets were up ¥2,712mn compared to the end of the previous fiscal year to ¥20,032mn. This was mainly due to a ¥1,797mn increase in real estate for sale and real estate for sale in process, and a ¥859mn increase in cash and deposits. Noncurrent assets increased ¥728mn to ¥25,610mn, primarily due to an increase of ¥634mn in property, plant and equipment from the purchase of tools, furniture and fixtures. As a result, total assets rose ¥3,440mn to ¥45,643mn.

Current liabilities were up ¥351mn compared to the end of the previous fiscal year to ¥6,218mn. This was mainly due to long-term borrowings to be paid within one year increasing by ¥477mn and unearned revenue increasing by ¥306mn, although short-term loans payable decreased by ¥287mn. Non-current liabilities increased by ¥980mn to ¥16,351mn. Main items include decreases of ¥286mn in long-term unearned revenue, ¥273mn in lease obligations and ¥157mn in bonds payable, and an increase of ¥2,338mn in long-term borrowings. As a result, total liabilities increased ¥1,331mn to ¥22,570mn.

Net assets were up ¥2,109mn compared to the end of the previous fiscal year to ¥23,072mn, mainly due to an increase in retained earnings carried forward of ¥2,091mn due to a reduction of ¥595mn for dividend payments.

As a result of the above, interest-bearing debt increased ¥2,104mn YoY to ¥14,048mn. The equity ratio improved from 49.7% in the previous period to 50.5%, reaching the Company's target 50.0%. This greatly exceeds the 32.9% average of the real estate industry on the TSE First Section in FY3/22, securing a highly secure and stable financial foundation. ROA was 8.6% and ROE was 13.1%, exceeding the averages of the real estate industry on the TSE First Section in FY3/22 of 3.9% and 8.1%, respectively.

Balance sheet and management indicators

(¥mn)

	FY12/21	FY12/22	Change
Current assets	17,319	20,032	2,712
Cash and cash equivalents	13,440	14,299	859
Real estate for sale, real estate for sale in process	3,338	5,136	1,797
Noncurrent assets	24,882	25,610	728
Property, plant and equipment	21,217	21,851	634
Intangible assets	49	49	0
Investments and other assets	3,615	3,709	93
Total assets	42,202	45,643	3,440
Current liabilities	5,867	6,218	351
Accounts payable, construction-related payables	162	146	-15
Short-term loans payable, etc.	2,252	2,448	195
Non-current liabilities	15,371	16,351	980
Long-term loans payable, corporate bonds, etc.	9,691	11,599	1,907
(Interest-bearing debt)	11,944	14,048	2,104
Total liabilities	21,239	22,570	1,331
Total net assets	20,963	23,072	2,109
Stability			
Equity ratio	49.7%	50.5%	0.8pt
Profitability			
ROA (Return on Assets)	7.3%	8.6%	1.3pt
ROE (Return on Equity)	16.2%	13.1%	-3.1pt

Note: Interest-bearing debt is the total of long- and short-term loans payable, corporate bonds, and lease obligations
Source: Prepared by FISCO from the Company's financial results

At the end of FY12/22, the balance of cash and cash equivalents was up ¥859mn compared to the end of the previous fiscal year to ¥14,299mn. Cash flow provided by operating activities was ¥1,605mn. The main inflows were a decrease of ¥1,797mn in inventories, and income taxes paid of ¥871mn, while the main outflows were from profit before income taxes of ¥3,862mn and the recording of ¥987mn in depreciation. Cash flow used in investing activities was ¥2,258mn, but mainly reflects an outflow of ¥2,189mn for the purchase of property, plant and equipment. Cash flow used in financing activities was ¥1,492mn. The main outflows include the repayment of long-term borrowing of ¥2,364mn, payment of dividends of ¥595mn, reduction in short-term borrowings of ¥287mn, and repayment of lease liabilities of ¥283mn, while the main inflow was ¥5,180mn in proceeds from long-term borrowing.

Cash flow statement

(¥mn)

	FY12/21	FY12/22
Cash flow from operating activities	5,741	1,605
Cash flow from investing activities	-1,264	-2,258
Cash flow from financing activities	-825	1,492
Balance of cash and cash equivalents at the end of the period	13,440	14,299

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

Future outlook

Reaccelerates new openings, but earnings forecasts are conservative for FY12/23, the first year of its Medium-Term Management Plan 23-25

• FY12/23 results outlook

For the FY12/23 results, the Company forecasts steady earnings growth, with net sales of ¥21,800mn (up 4.4% YoY), operating income of ¥4,050mn (up 8.2% YoY), ordinary income of ¥3,930mn (up 4.6% YoY), and net income of ¥2,600mn (down 9.8% YoY). The Company plans to continue to increase sales and profits in the mainstay self-storage business, and to achieve sharp growth by accelerating unit openings nationwide for its core self-storage management business. The Company expects the land rights consolidation business to generate higher sales and profit from steady growth from the concentration of management resources in core business. The smaller forecasted increase in ordinary income compared to operating income is due to an expected decrease in non-operating income. The Company expects income to fall from the absence of special factors such as gain on sale of investment securities it recorded the previous fiscal year, and corporation tax refund. Since the Company has a strong tendency to announce conservative forecasts in the initial plan for the fiscal year, we at FISCO believe it is highly likely to achieve the forecasts as long as the business environment does not deteriorate.

FY12/23 results forecasts

(¥mn)

	FY12/22		FY12/23		YoY	
	Results	vs. sales	Forecasts	vs. sales	Change	Rate of change
Net sales	20,878	100.0%	21,800	100.0%	921	4.4%
Operating income	3,742	17.9%	4,050	18.6%	307	8.2%
Ordinary income	3,758	18.0%	3,930	18.0%	171	4.6%
Net income	2,883	13.8%	2,600	11.9%	-283	-9.8%

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

The results forecasts by segment are as follows.

(1) Self-storage business

The forecasts are for net sales of ¥17,200mn (up 5.1% YoY), operating income of ¥4,440mn (up 8.7%), and an operating income margin of 25.8% (25.0% in the previous fiscal year). The Company will aim to expand and grow the cumulative-type business that generates stable income, centered on self-storage management. Its policy will be to establish a management structure unaffected by conditions in the real estate and financial markets by solidifying the stable earnings foundation. Having completed structural reform of cumulative-type business, the Company plans to rapidly increase the number of new openings from 2,915 units the previous fiscal year to 4,700 units this fiscal year.

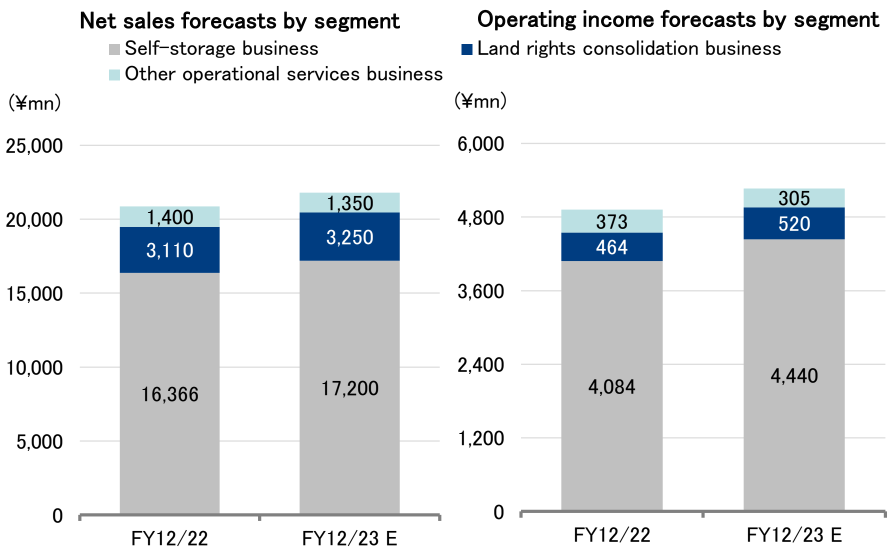
Self-storage management is the core business within the segment that supports the stable earnings foundation. The Company is therefore aiming to grow and expand it further, including by developing services ancillary to storage, raising customer satisfaction, and enhancing brand power and recognition thorough Hello Storage. In principle, the Company plans to open properties that it will own, except for some properties. Self-storage management profitability is therefore expected to improve further. On the other hand, the Company plans to maintain self-storage management profitability by curbing profit margins at the time of sale on the one hand, and accepting management from customers when conducting sales as self-storage brokerage. Although temporary income from self-storage brokerage will not be recorded because of this, it is expected to lead to growth in overall self-storage business sales.

(2) Land rights consolidation business

In the land rights consolidation business, the forecasts are for net sales of ¥3,250mn (up 4.5% YoY), operating income of ¥520mn (up 12.0%), and an operating income margin of 16.0% (14.9% in the previous fiscal year). The Company is forecasting an increase in sales and profits because it expects the operating income margin to improve as effects emerge from steps taken in FY12/21 to improve the quality of inventory and revamp the business to an appropriate scale.

(3) Other operational services business

In other operational services business, the forecasts are for net sales of ¥1,350mn (down 3.6% YoY), operating income of ¥305mn (down 18.4%), and an operating income margin of 22.6% (26.7% in the previous fiscal year).



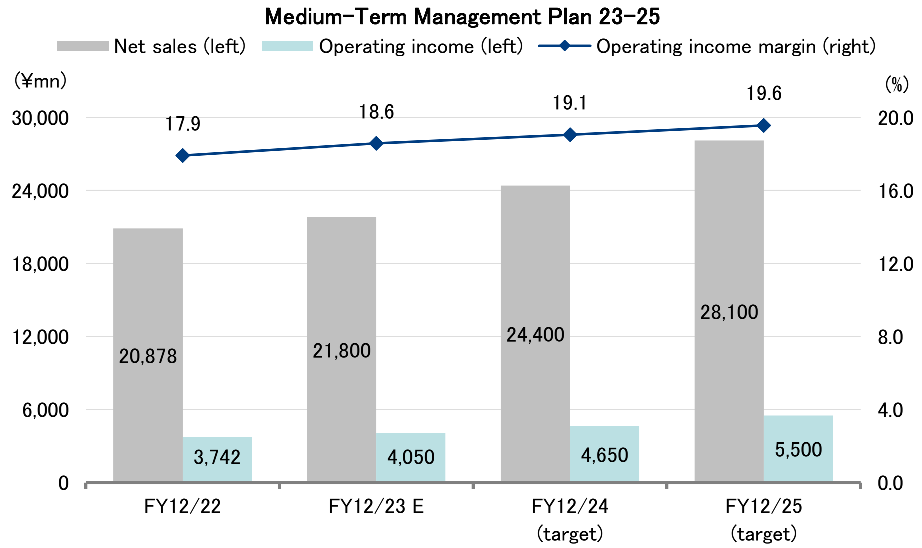
Note: Operating income is before deducting administrative expenses
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Growth strategy

Announced the new medium-term management plan focused on profit growth underpinned by self-storage management

1. Summary of targets in the new medium-term management plan

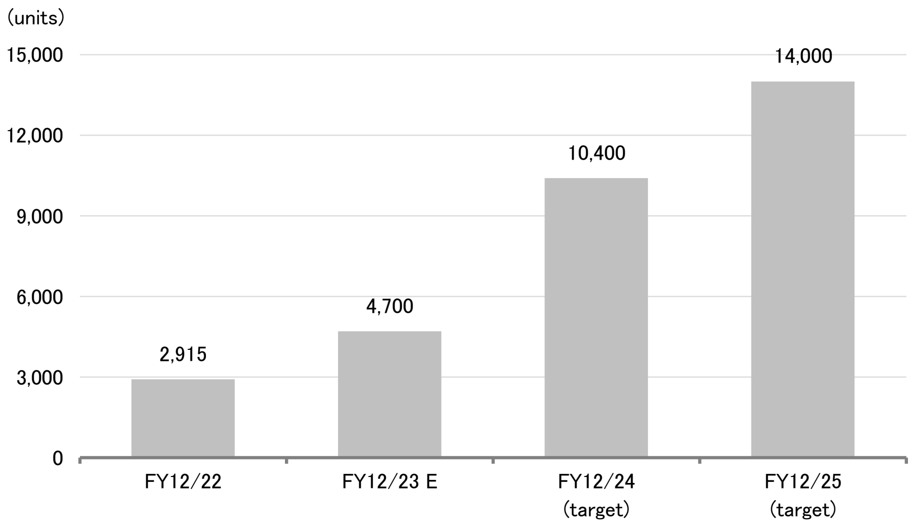
In February 2023, the Company announced Medium-Term Management Plan 23-25, stating that the previous Medium-Term Management Plan 22-24 would be discontinued after a single year due to the Company expecting to achieve its target profit in FY12/23, the second year of the plan, and also due to its switch to a growth strategy centering on the storage business. The new management targets are for net sales of ¥28,100mn (up 34.6% compared to FY12/22), operating income of ¥5,500mn (up 47.0%), and ordinary income of ¥5,350mn (up 42.4%) in FY12/25, the plan's final year. Due to an increase in profit that will surpass net sales, the operating profit margin is expected to increase from 17.9% in FY12/22 to 19.6% in FY12/25. In FY12/22, cumulative-type business profit centering on self-storage management increased to 90% of all profit, completing the structural reform of cumulative-type business. Going forward, the Company will aim for an increased market share by accelerating unit openings to boost sales, as well as steady progress on profit margin improvement with the aim of quickly achieving 20%.



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

With respect to "reacceleration of openings," the Company plans to open 14,000 rooms in FY12/25, 4.8x the rate in FY12/22, and open 25,000 new rooms per year in FY12/29. Between FY12/16 and FY12/19, the Company opened around 10,000 new rooms per year, but opened only 1,614 new rooms in FY12/21 as a result of limiting new openings that year due to COVID-19. However, the completion of a nationwide database for new openings has increased the area for new store openings and greatly improved the precision of new openings, and the creation of a sales system that does not rely on manpower enables efficient sales activities with less waste. The creation of these systems over several years means the Company is now operating in an environment that allows it to accelerate new openings. Additional measures to support a rapid expansion of new openings include strengthening new opening teams and construction units, further precision improvements to the new opening database by collaboration with a think tank, expansion of new opening areas (entry into new areas), bolstering new openings of Storage Mini and indoor trunk rooms inside buildings, consideration of M&A of other companies, and the systemization of agent business and commission business. FISCO believes that although the Company's plan of 100,000 new openings in the next seven years is an extremely high numerical target, the high demand for storage nationwide and enhanced global recognition of the Company make the target a possibility.

Number of new units planned

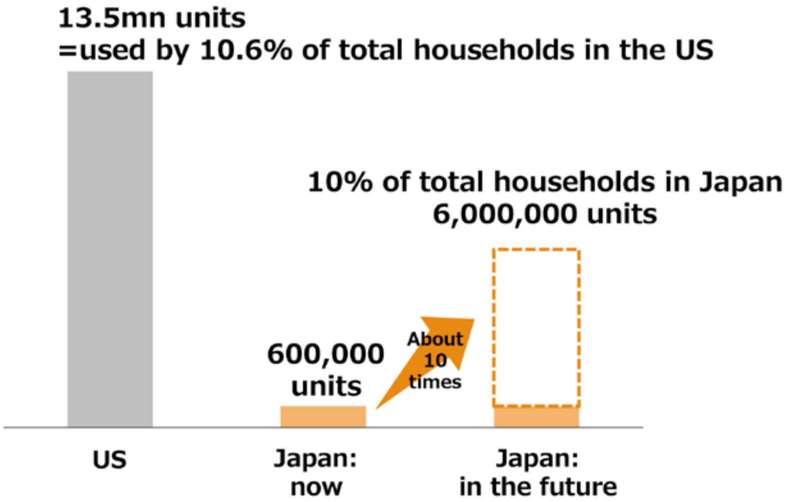


Source: Prepared by FISCO from the Company's results briefing materials

2. Growth and issues in the self-storage market

According to the Company, about 13.5mn or 10.6% of total households in the US use self-storage. Meanwhile, the number of self-storage units currently being supplied in Japan is about 600,000, which equates to only about 1.1% of the number of total households. So, based on simple calculations comparing Japan and the US, it can be said there is potential for future development of Japan's self-storage market to about 10 times its current scale. Looking at international comparisons of housing floor space, the figure for the Kanto metropolitan area in Japan is 35.3m2 versus the US average of 61.2m2, meaning potential demand for storage is likely high. Based on these figures, the prospect is for significant growth in the self-storage market. The Company targets a market share of 50% in the medium term centering on self-storage management that generates stable income.

Japan and US storage usage comparison



Source: The Company's results briefing materials

The coin-operated parking business (parking lot hire by the hour) is similar to the self-storage business. Similarities include the lease and management of land, cumulative-type businesses, services closely related to daily life, and generation of high earnings from unmanned operation. However, the self-storage business has advantages over coin-operated parking, such as being an industry at the developmental stage in Japan, generating a high profit margin and stable earnings, and not being affected by COVID-19. Looking at trends in the total number of self-storage units and the occupancy rate since 2009, occupancy steadily increased during the global financial crisis of 2008, the Great East Japan Earthquake, and COVID-19, signifying that the self-storage business is resilient against natural disasters and economic downturns. However, issues for self-storage include the lack of consumer awareness of the product, the small absolute number of units, and an initial loss-making start. To combat these issues, the Company has taken measures such as a differentiation strategy, new unit strategy, small sizing, and new opening precision improvements.

3. Priority measures

Based on self-storage market growth and issues, the Company is promoting a (1) new unit strategy, (2) differentiation strategy, (3) an overseas strategy, and (4) human resource development.

(1) New unit strategies

The Company's strategy is to open mostly small-sized new units that can quickly generate revenue. The Company's competitors build self-storage units only in city centers, which are large steel-reinforced and steel-framed properties with over 100 units. These are staffed, and often make a loss in the first year of opening. By contrast, the Company builds units nationwide (city and regions), and focuses on smaller properties of mainly wooden or container structures of 30-40 units that are unmanned and can reach profitability in the first year of opening (in just under half a year). Using an analogy, competitors are large supermarkets while the Company is a convenience store. Looking at the Company's unit opening plan, it will expand openings of existing core product outdoor-type trunk rooms (container type), as well as expand openings of other products to match local needs, such as indoor-type trunk rooms in mainly urban areas (the 23 wards of Tokyo), container trunk rooms mainly in the suburbs, and Storage Mini rooms mainly in residential areas.

(2) Differentiation strategy

a) Seeking to improve customer satisfaction

The Company seeks to improve customer satisfaction by unceasingly implementing service development and site improvements. Specific service development examples include the Hello Home Delivery transportation service that handles delivery from the home to the trunk room, allowing customers to smoothly store items in trunk rooms. The use of racks increases storage capacity and helps keep things organized. With strong occupancy of rooms with racks, the Company has started offering a rack sale and assembly service in Tokyo and three other prefectures. Properties that use a security system compatible with the transport system IC cards that people carry with them make it possible to use the cards to unlock trunk rooms without the trouble of issuing and managing card keys. There is no need to increase the number of card keys when using multiple rooms. Rooms can also be unlocked using a smartphone app.

Service development

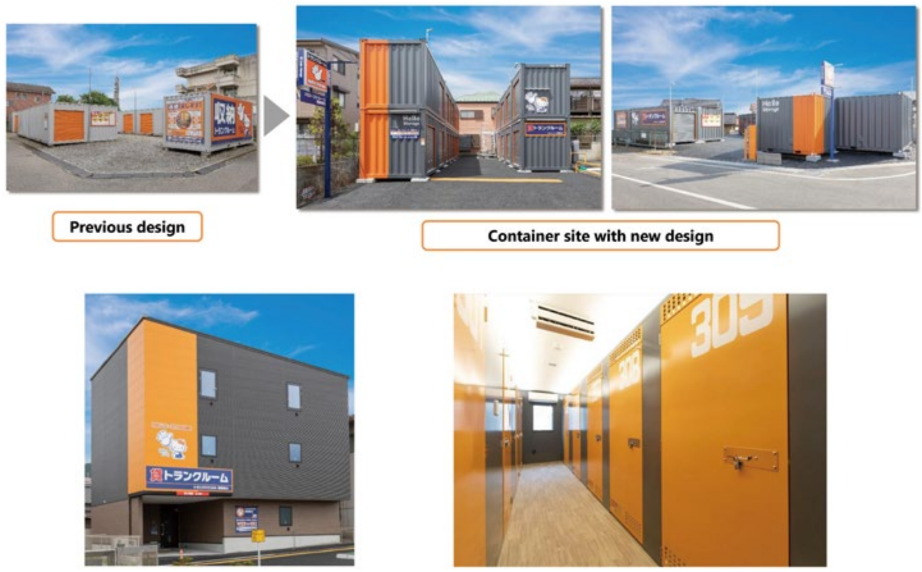
Delivery service: Hello Home Delivery	Rack sale and assembly service	Transport system IC card security
		
• Smooth storage from the home to the trunk room • A service that further increases convenience	• Increases storage capacity and helps keep things organized • Strong occupancy of rooms with racks ▼ Started offering a rack sale and assembly service in Tokyo and three other prefectures	• Reduces trouble of issuing and managing card keys • No need to increase the number of card keys when using multiple rooms • Use smartphone app to unlock rooms

Source: The Company's results briefing materials

b) Introduction of new container design

The Company has introduced a new container design, and plans to change all properties to the new design over the next 10 years. The previous design prioritized differentiation to increase brand recognition, but the new design based on orange is calmer and cleaner to blend in with surrounding residences. The Company has also developed a new design for Storage Mini units that opened from September 2022. The chic and high-class coloring is coordinated, including the interior.

New container design (above), new Storage Mini design (below)



Source: The Company's results briefing materials

(3) Overseas strategies

The Company's policy is to purchase properties in mature self-storage countries in Europe, US, and Australia to join local associations to obtain a thorough knowledge of overseas affairs. The main purpose is to improve services in Japan by learning about overseas self-storage and incorporating that expertise in Japan, but the Company also intends to expand Storage Mini globally in the future.

(4) Human resource development

The Company is also focusing on human resource development. It aims to become a professional organizing advisor organization, with most employees already holding Seiri-Shuno Advisor Level 2 qualifications, and it also holds an annual organizing contest that leads to proposals for convenient and easy-to-use services. The Company has achieved management with a small team, operating 2,000 properties with just over 70 permanent employees, and trains employees using its unique Arealink Master system. Human resource development is also undertaken using 10 Arealink Method categories that incorporate the experience of the Company's president to achieve business efficiency and growth.

As noted above, while the new medium-term management plan's management targets are ambitious, we at FISCO think the numbers are achievable if these priority measures are taken since the self-storage market in Japan is expected to have growth potential. It should also be noted that the Company is proactively promoting ESG management while pursuing profits as the industry leader. Future ESG initiatives are also key in that the tendency for investors, mainly institutional investors, to invest in companies that take ESG into consideration has been strengthening in recent years.

Shareholder return policy

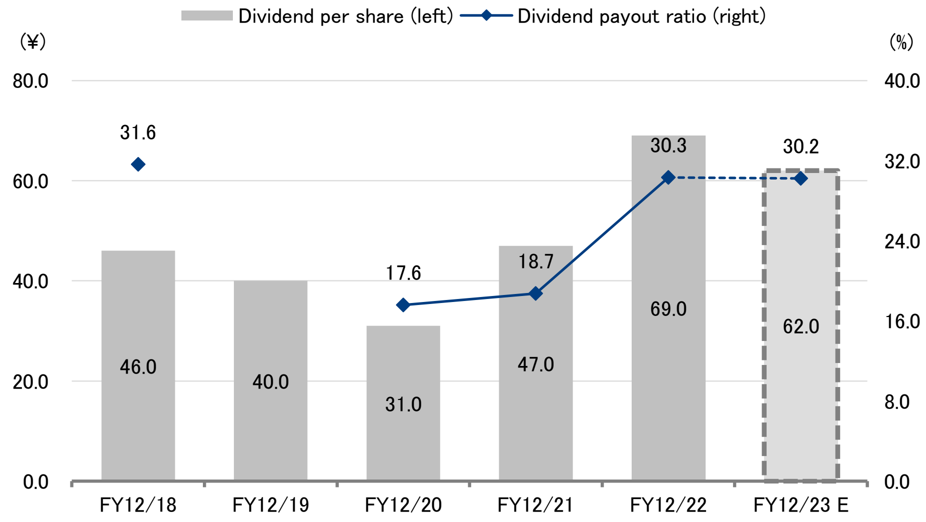
Significantly increased dividend payout in FY12/22, achieving a dividend payout ratio of 30%. Plans to maintain at least 30% payout ratio in FY12/23

Returning profits to shareholders is an important management issue for the Company, which it fundamentally performs through paying dividends. Its basic policy is to pay a single dividend at the end of the fiscal period, targeting a dividend payout ratio of 30%. It decides on the dividend based on its medium- to long-term business plan and while observing the market environment and the timing of capital investment, comprehensively taking into consideration factors such as securing internal funds, its financial condition, and the level of profits.

To reflect strong results in FY12/22, the Company paid an annual dividend per share of ¥69.0 (up ¥22.0 YoY), up significantly from its initial forecast of ¥50.0 per share, for a dividend payout ratio of 30.3%. For FY12/23, the Company forecasts an annual dividend per share of ¥62.0 (down ¥7.0 YoY), due partly to the Company's forecast for lower net income attributable to owners of the parent, and a dividend payout ratio of 30.2%.

The Company plans to ambitiously increase profits centered on a cumulative-type business which generates stable revenue from customers based on the new medium-term management plan. Therefore, we at FISCO think that further dividend increases can be expected by achieving results.

Trends in dividend per share and the dividend payout ratio



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

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