COMPANY RESEARCH AND ANALYSIS REPORT

Arealink Co., Ltd.

8914

Tokyo Stock Exchange Standard Market

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Index

Summary

Completes structural reform to transition to a cumulative-type business, accelerates unit openings. Aims to achieve medium-term business plan through rapid self-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 FY12/23 results

In the FY12/23 results, net sales were ¥22,463mn (up 7.6% year-on-year (YoY)), operating income was ¥4,155mn (up 11.1%), ordinary income was ¥4,058mn (up 8.0%), and net income was ¥2,821mn (down 2.1%), as both net sales and profits came in above initial forecasts. Only net income declined. This was because income taxes - refund and gain on liquidation of investment securities recorded the previous term dropped off. By segment, mainstay self-storage management maintained high occupancy rates despite an increase in the number of units opening, as the segment performed well. The self-storage business recorded increased sales and profits and drove the Company's strong performance. In the land rights consolidation business, sales were steady, but profit declined on valuation losses on some assets. In addition, in the other operational services business, sales increased, but profit declined due to cancellation of some properties and other factors. The equity ratio was 50.4% (50.5% at the end of FY12/22), so the Company maintained its target of 50% for a high level of safety. ROA (ratio of ordinary income to total assets) was 8.5% and ROE (ratio of net income to equity) was 11.7%, as high profitability was maintained. Based on the above, the Company is paying a regular dividend of ¥67.0 and a special dividend of ¥10.0 to commemorate 20 years as a publicly listed company to increase to a total dividend of ¥77.0 (up ¥8.0 YoY). The payout ratio is 34.6%, above the target 30%, so the Company has been proactive in shareholder returns.

2. FY12/24 results outlook

For the FY12/24 results, based on the medium-term management plan, the Company is forecasting net sales of ¥24,400mn (up 8.6% YoY), operating income of ¥4,650mn (up 11.9%), ordinary income of ¥4,520mn (up 11.4%), and net income of ¥3,080mn (up 9.2%). In the mainstay self-storage business, sales and profit are expected to continue to rise, and in self-storage management, unit openings will be accelerated nationwide, by which the Company is planning further growth. The priority of management is being shifted to the self-storage business, so the land rights consolidation business is expected to decrease in sales and profit as its scale is lessened. In other operational services business, sales and profit are expected to increase. Based on this, a regular dividend of ¥77.0 is planned, the same as the previous year, for a payout ratio of 31.7%, as the Company plans to again achieve the target of 30%. As long as the management environment does not worsen beyond expectations, FISCO believes there is a high likelihood that the forecasts are achieved.

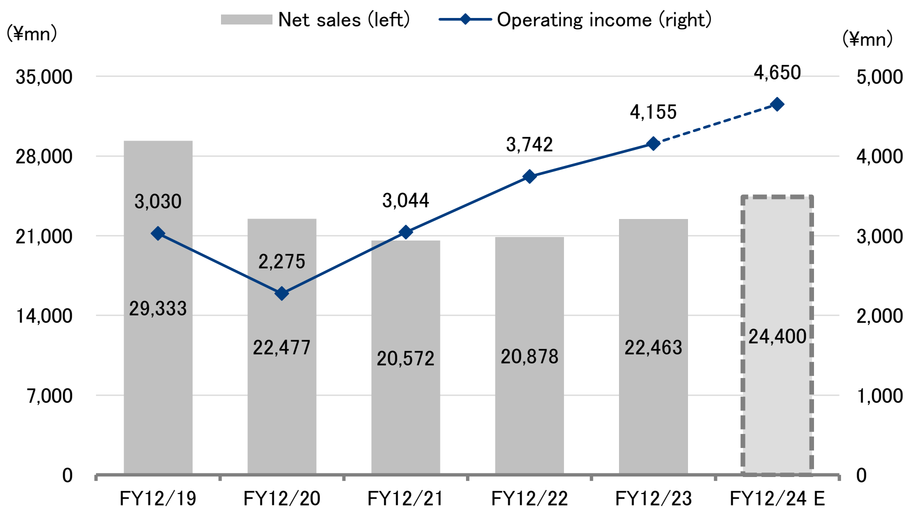
3. Medium-term management plan

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 its switch to a growth strategy centering on the storage business. The 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. Structural reforms to transition to a cumulative-type business have finished and under the medium-term management plan, 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, performance in FY12/23 exceeded forecasts for the initial year of the plan. We at FISCO think the numbers are realistic since the self-storage market in Japan is expected to have substantial growth potential. 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 FY12/23, beating initial forecasts for both net sales and profit. Paid increased dividend, including commemorative dividend
- In FY12/24, will promote rapid expansion and rapid growth of self-storage business for increased sales and profits, planning to pay dividend at same amount as last year
- Advanced management focused on profit growth underpinned by self-storage management, based on medium-term management plan

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 units

1. Company overview

The Company is the leading company in the self-storage industry, listed on the TSE Standard Market, and has a corporate philosophy of "Provide Convenience, Joy, and Excitement." In addition to its core business offering rental storage space (trunk units) 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 strong leadership of Naomichi Hayashi, Company founder and its current representative director and chairman (stepped down as representative director and president in March 2023 and appointed chairman) and Yoshika Suzuki, appointed representative director and president in March 2023, the Company demonstrates the following three strengths that are based on a flexible management strategy that accommodates changes in the environment to continue steady growth unaffected by the business climate.

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%, and extends to all 47 prefectures in Japan. 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. 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. As of the end of FY12/23, its equity ratio was 50.4%, greatly exceeding the 33.0% average for the real estate industry on the TSE Prime, Standard and Growth markets in FY3/23, and it seems that it is aiming to maintain the ratio in 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 2023, it had 80 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 FY12/23, ROA was 8.5% and ROE was 11.7%, which are higher than the averages of the real estate industry on the TSE Prime, Standard and Growth markets in FY3/23 of 4.2% and 8.7% respectively. The Company is aiming to further grow earnings and improve profitability by advancing the 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 representative director and chairman, in order to launch a contracting business for the WELL's21 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 units), 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

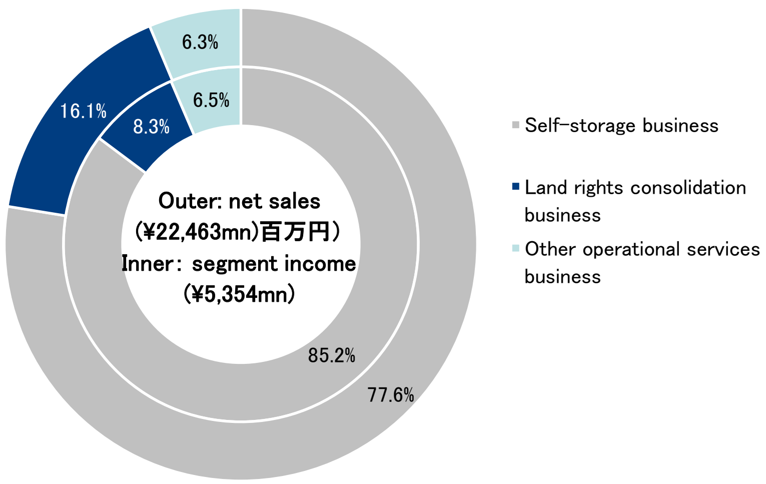
Self-storage management is the core business

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 FY12/23, the self-storage business provided 77.6%, land rights consolidation business 16.1%, and other operational services business 6.3%. Turning to the breakdown of segment income (before deducting administrative expenses), the self-storage business provided 85.2%, the land rights consolidation business 8.3%, and other operational services business 6.5%. This demonstrates that the self-storage business, is the Company's core business for both net sales and segment income.

Breakdown of net sales and segment income by business segment
(FY12/23 results)



Note: Breakdown of segment 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 units 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 units (container type) and indoor-type trunk units (in-building type or building type).

Outdoor-type trunk units (container-type) are the Company's main product. From Hokkaido to Okinawa, the units have expanded nationwide, offering storage space using durable containers originally made for maritime shipping. You can drive up right alongside the container and it can be used 24 hours a day. Another characteristic is the range of sizes from large sizes with large storage capacities to compact sizes. In addition, some locations have "bike boxes," standalone box-type parking spaces specifically for motorcycles.

Indoor-type trunk units (in-building type), instead of using containers, are products made by putting up partitions in an existing building's floor to renovate it to trunk units. These are largely located in the Tokyo metropolitan area. Its features are they can be used 24 hours a day safely and securely thanks to security provided by a major security company and the wide variety of the popular medium-sized units. Whether there are facilities such as parking spaces and air conditioning depend on the property.

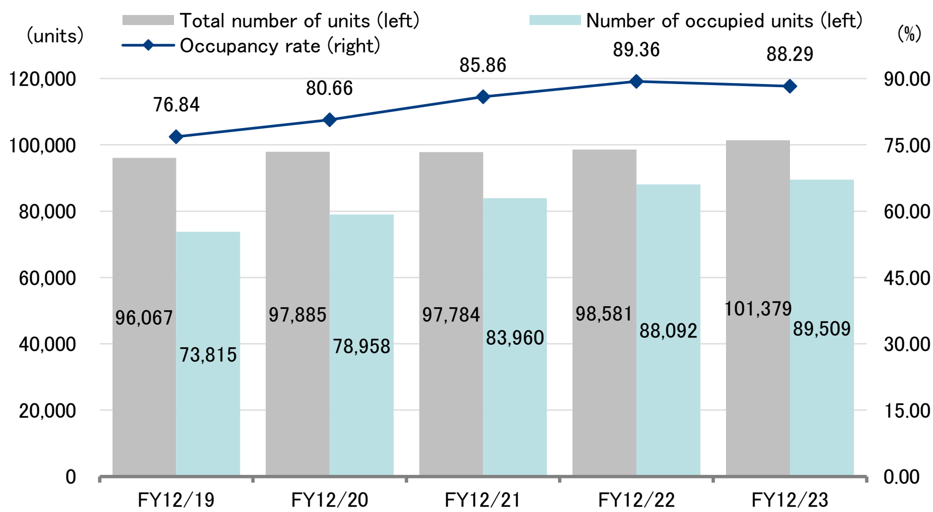
Indoor-type trunk units (building-type) are entire buildings designed for use of trunk units, offering storage space inside rooms. Air conditioning and security are enhanced and there are dedicated parking spaces. Since 2021, the Company has added small-scale wooden structure self-storage mini units, which sit on smaller lots than conventional products. It is being developed in regional cities, areas around stations and suburbs with clusters of condominiums where new families live. However, building-type storage units require purchasing land and building, so the return is at a relatively low level.

Self-storage business products

Source: The Company's results briefing materials

The number of these Hello Storage units continues to rise steadily each year. The number of units in FY12/23 increased by 2,798 compared to end-FY12/22 to 101,379 units. The occupancy rate at existing units improved again to 91.10%. Occupancy rates at new units opened within the last two business years was just 57.01%, and overall utilization was 88.29% (down 1.07 percentage points), but a high level continues to be maintained. In addition, the Company is raising the precision of its database, developing multiple small-scale properties, and raising the name recognition of its products and services to get the occupancy rate of newly opened units above the breakeven point as soon as possible each year, and this has been showing improvement.

Trends in the number of Hello Storage units and occupancy conditions



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

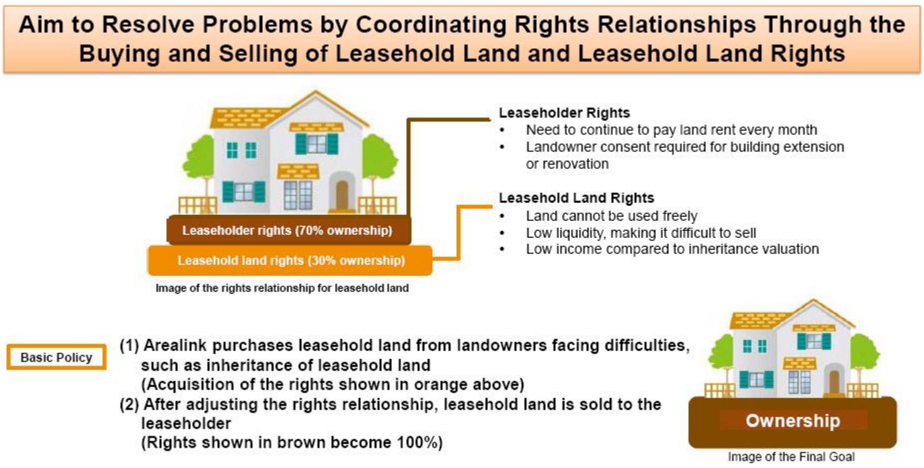
3. Land rights consolidation business

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. Dead stock, which had risen at one point, has all be liquidated, but this business is an unstable flow business, so it is currently contracting under the Company's policy of promoting the self-storage business, which is a stock business.

Overview of the land rights consolidation business (leasehold land)



Source: The Company's results briefing materials

4. Other operational services business

The other operational services business comprises the asset business, rental office business, and others. They are stock businesses with recurring revenue. The asset business mainly consists of rental income on revenue-generating properties that are owned. In addition, the rental office business is being expanded under the Hello Office brand of offices for small numbers of people in Tokyo's 23 wards. Demand expanded with the increase in remote work due to the COVID-19 pandemic, and many competitors entered the market. The other operational services business withdrew from the rental meeting room business in December 2020 and from the parking business in March 2021, as the Company continues to select certain businesses for focus.

Results trends

In FY12/23 results, net sales and profits were both above initial forecasts, and mainstay self-storage management was strong

1. Summary of FY12/23 results

The FY12/23 results were net sales of ¥22,463mn (up 7.6% YoY, operating income of ¥4,155mn (up 11.1%), ordinary income of ¥4,058mn (up 8.0%) and net income of ¥2,821mn (down 2.1%). Profit increased while absorbing ¥3,397mn in SG&A expenses, which went up due to active bonuses being given because the Company is run by a small management team. Sales commissions included in commission expenses in SG&A expenses are brokerage fees (variable expense) paid to brokers when buying or selling real estate, and this went up significantly, by 89.6% to ¥267mn as a result of rapidly increasing new units. In addition, non-operating income included ¥87mn (up 16.7%) in compensation for transfer received from the owners when withdrawing from properties in which it had occupied as tenant. Further, only net income decreased because income taxes - refund and gain on liquidation of investment securities, etc. recorded the previous term as special factors dropped off. As a result of the above, against initial forecasts, net sales were up 3.0%, operating income 2.6%, ordinary income, 3.3%, and net income 8.5%.

By segment, despite the increase in units, the mainstay self-storage business maintained high occupancy rates and performed well overall, which resulted in gains in both sales and profits, and this drove the overall strong performance of the Company. The land rights consolidation business recorded steady net sales, but profit was down due to valuation losses on some properties. Also, the other operational services business saw increased sales but lower profits as there were cancellations, etc. at some properties.

Summary of FY12/23 results

(¥mn)

	FY12/22		FY12/23			YoY		vs. forecast	
	Results	vs. sales	Initial forecasts	Results	vs. sales	Change	Rate of change	Difference	Rate of change
Rate of change	20,878	100.0%	21,800	22,463	100.0%	1,585	7.6%	663	3.0%
Net sales	6,717	32.2%	-	7,552	33.6%	834	12.4%	-	-
Gross profit	2,975	14.3%	-	3,397	15.1%	421	14.2%	-	-
SG&A expenses	3,742	17.9%	4,050	4,155	18.5%	413	11.1%	105	2.6%
Operating income	3,758	18.0%	3,930	4,058	18.1%	299	8.0%	128	3.3%
Ordinary income	2,883	13.8%	2,600	2,821	12.6%	-61	-2.1%	221	8.5%

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 ¥17,423mn (up 6.5% YoY) and segment income was ¥4,563mn (up 11.7%), a strong performance. Also, this business's share of total results was 77.6% of net sales (78.4% in the previous fiscal year) and 85.2% of segment income (83.0%), and its operating income margin rose to 26.2% (25.0%), 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 are materializing.

The self-storage management business, which is central to the self-storage business, had net sales of ¥16,668mn (up 6.0% YoY) and gross profit of ¥6,227 (up 13.0%). Units in the self-storage business totaled 101,379 at the end of FY12/23 (up 2,798 from end-FY12/22). New unit openings reached 5,800, well above the plan of 4,700 units, but at the same time other units were closed, etc., which led to a decrease. Units are being opened at a pace ahead of the medium-term management plan as personnel are secured. Mainstay container units accounted for 82.9% of new openings. Cumulative numbers at year-end break down as follows. There were 77,612 container units (76.6% of the total), 15,515 units inside buildings (15.3%), and 8,252 self-storage mini units (8.1%). As the Company raises its brand recognition, it is receiving information on candidate locations for new openings from landowners, real estate companies and financial institutions, etc.

In addition, the occupancy rate in the self-storage management business is 88.29% (down 1.07 percentage points YoY) as the Company continues to maintain a high rate. The reason the rate went down even though the rate at existing units is 91.10% (up 0.37 percentage points) is because the occupancy rate at new properties opened during the past two business years stands at 57.01% (down 3.80 percentage points). However, as the number of owned properties has increased, occupancy rates after new openings have been improving and year after year the breakeven point is overcome quickly. Factors for higher occupancy rates include improved database precision, opening multiple smaller-sized units, demand for home organization due to remote work taking hold, smaller sized houses caused by higher prices for houses, and increased name recognition for products and services due to a focus on PR activities.

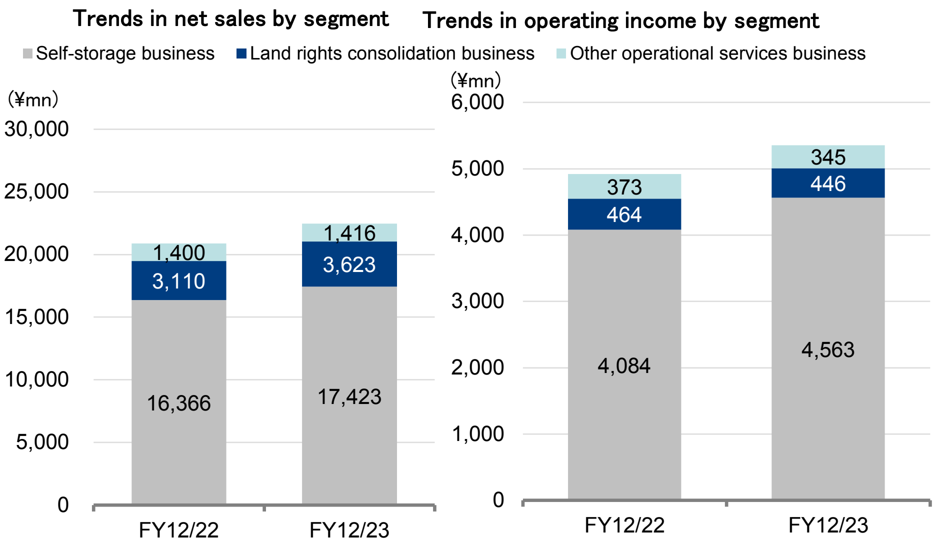
At the same time, self-storage brokerage saw net sales of ¥755mn (up 17.7% YoY) and gross profit of ¥61mn (up 13.0%). For the full term, seven properties were sold, which increased sales and profits. This business has only a small share of the self-storage business, so the impact on the business overall is negligible.

(2) Land rights consolidation business

Net sales were ¥3,623mn (up 16.5% YoY) and segment income was ¥446mn (down 3.9%). The share of this business was net sales of 16.1% (14.9% in FY12/22), segment income of 8.3% (9.4%), and a profit margin of 12.3% (14.9%). The Company continues to be focused on purchasing high-quality properties, and inventory was ¥3,809mn (down ¥146mn YoY). Net sales were steady, but an audit resulted in lower profit due to certain properties being devalued.

(3) Other operational services business

Net sales were ¥1,416mn (up 1.2% YoY) and segment income was ¥345mn (down 7.6%). The share of this business was 6.3% for net sales (6.7% in FY12/22), 6.5% for segment income (7.6%) and a profit margin of 24.4% (26.7%). The asset business continued to maintain high occupancy; sales and profit declined as a result of recording repair expenses, etc. In the office business, there were three new openings in 2022 and two new openings in February 2023, which contributed to sales, so revenue was up but profit was down due to opening expenses for new properties and the impact of property closures.



Note: The breakdown of segment 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 FY12/23, current assets were up ¥1,854mn compared to the end of the previous fiscal year to ¥21,887mn. This was mainly due to a ¥1,164mn increase in real estate for sale and real estate for sale in process, and a ¥696mn increase in cash and deposits. Noncurrent assets increased ¥2,177mn to ¥27,788mn, primarily due to an increase of ¥2,384mn in property, plant and equipment from the purchase of tools, furniture and fixtures. As a result, total assets rose ¥4,032mn to ¥49,676mn.

Current liabilities were up ¥843mn compared to the end of the previous fiscal year to ¥7,062mn. This was mainly due to short-term loans payable increasing by ¥693mn. Non-current liabilities increased by ¥1,241mn to ¥17,592mn. Main items include decreases of ¥706mn in long-term accounts payable and ¥244mn in long-term unearned revenue, and increases in long-term borrowings and bonds payable totaling ¥2,013mn. As a result, total liabilities increased ¥2,084mn to ¥24,655mn.

Net assets were up ¥1,948mn compared to the end of the previous fiscal year to ¥25,021mn, mainly due to an increase in retained earnings carried forward of ¥1,946 due to an increase in profit of ¥2,821mn and decrease and decrease of ¥874mn for dividend payments.

As a result of the above, interest-bearing debt increased ¥2,707mn compared to end-FY12/22 to ¥16,755mn. In addition, the equity ratio (50.5% at end-FY12/22), maintained the target of 50%. The Company is maintaining a high level of safety that exceeds the 33.0% real estate industry average based on the total of TSE Prime, Standard, and Growth markets in FY3/23. In addition, ROA was 8.5%, ROE, 11.7%, above 4.2% ROA and of 8.7% ROE, the real estate industry averages on the TSE Prime, Standard and Growth markets.

Balance sheet and management indicators

(¥mn)

	End of FY12/22	End of FY12/23	Change
Current assets	20,032	21,887	1,854
Cash and cash equivalents	14,299	14,995	696
Real estate for sale, real estate for sale in process	5,136	6,301	1,164
Noncurrent assets	25,610	27,788	2,177
Property, plant and equipment	21,851	24,236	2,384
Intangible assets	49	58	8
Investments and other assets	3,709	3,494	-214
Total assets	45,643	49,676	4,032
Current liabilities	6,218	7,062	843
Accounts payable, construction-related payables	146	164	18
Short-term loans payable, etc.	2,448	3,141	693
Non-current liabilities	16,351	17,592	1,241
Long-term loans payable, corporate bonds, etc.	11,599	13,612	2,013
(Interest-bearing debt)	14,048	16,755	2,707
Total liabilities	22,570	24,655	2,084
Total net assets	23,072	25,021	1,948
Stability			
Equity ratio	50.5%	50.4%	-0.1pt
Profitability			
ROA (Return on Assets)	8.6%	8.5%	-0.1pt
ROE (Return on Equity)	13.1%	11.7%	-1.4pt

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 FY12/23, the balance of cash and cash equivalents was up ¥696mn compared to the end of the previous fiscal year to ¥14,995mn. Cash flow provided by operating activities was ¥3,530mn. The main inflows were a decrease in income taxes paid of ¥1,169mn, while the main outflows were from profit before income taxes of ¥4,070mn and the recording of an increase of ¥1,130mn in depreciation. Cash flow used in investing activities was ¥4,667mn, but mainly reflects an outflow of ¥4,801mn for the purchase of property, plant and equipment. Cash flow used in financing activities was ¥1,818mn. The main outflows include the repayment of long-term borrowing of ¥2,603mn, and a reduction in payment of dividends of ¥873mn, while the main inflow was ¥5,362mn in proceeds from long-term borrowing.

Cash flow statement

(¥mn)

	FY12/22	FY12/23
Cash flow from operating activities	1,605	3,530
Cash flow from investing activities	-2,258	-4,667
Cash flow from financing activities	1,492	1,818
Balance of cash and cash equivalents at the end of the period	14,299	14,995

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

Future outlook

In FY12/24, accelerate openings based on Medium-Term Management Plan 23-25 and forecasting increased sales and profits

● FY12/24 results outlook

Regarding results for FY12/24, based on the ongoing Medium-Term Management Plan 23-25, the Company is forecasting net sales of ¥24,400mn (up 8.6% YoY), operating income of ¥4,650mn (up 11.9%), ordinary income of ¥4,520mn (up 11.4%), and net income of ¥3,080mn (up 9.2%). The Company is planning to increase properties and the share of the self-storage business, which has high profitability because of unmanned operations. The operating profit margin is expected to increase to 19.1% (18.5% YoY).

In the mainstay self-storage business, sales and profits are both expected to continue to increase. Self-storage management, a core business, will accelerate unit openings nationwide and is planning further growth. The Company is shifting the focus of management to the self-storage business, so the land rights consolidation business is contracting in business scale, meaning lower sales and profits are anticipated. In addition, the other operational services business is expected to see increased sales and decreased profit. Unless the operating environment deteriorates more than expected, we at FISCO believe there is a high likelihood that the Company will achieve its forecasts.

FY12/24 results outlook

(¥mn)

	FY12/23		FY12/24		YoY	
	Results	vs. sales	Forecasts	vs. sales	Change	Rate of change
Net sales	22,463	100.0%	24,400	100.0%	1,937	8.6%
Operating income	4,155	18.5%	4,650	19.1%	495	11.9%
Ordinary income	4,058	18.1%	4,520	18.5%	462	11.4%
Net income	2,821	12.6%	3,080	12.6%	259	9.2%

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 ¥20,500mn (up 17.7% YoY), segment income of ¥5,360mn (up 17.5%), and an operating income margin of 26.1% (26.2% 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 the structural reform to transition to a cumulative-type business, the Company plans to rapidly increase the number of new openings from 5,800 units the previous fiscal year to 10,400 units this fiscal year.

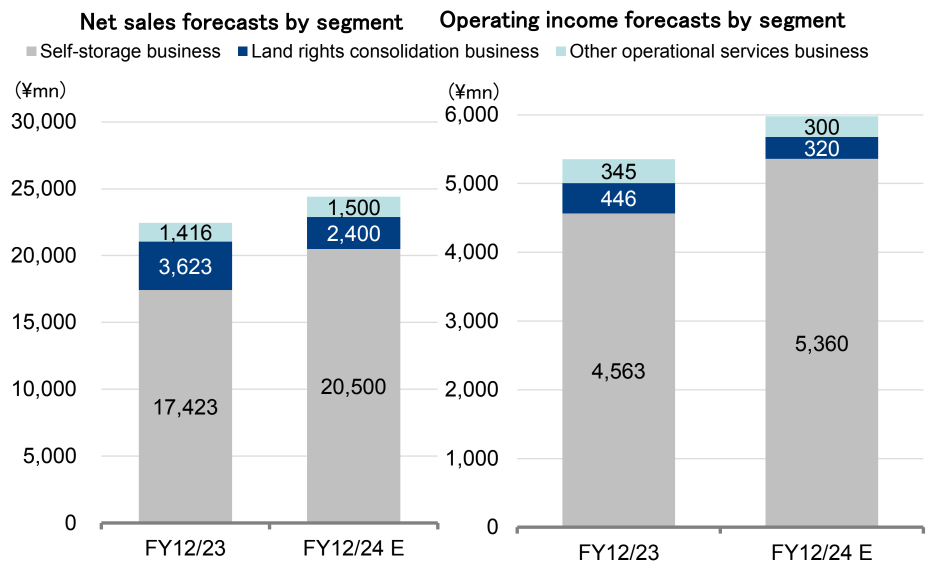
Self-storage management is the core business within the segment that supports the stable earnings foundation. The Company is therefore aiming to grow and expand it further, including by developing services ancillary to storage, raising customer satisfaction, and enhancing brand power and recognition through Hello Storage. The Company seeks openings nationwide to establish the business as one that backs up the affluent lifestyles of Japanese people. 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 ¥2,400mn (down 33.8% YoY), segment income of ¥320mn (down 28.3%), and an operating income margin of 13.3% (12.3% in the previous fiscal year). The business policy is to scale down.

(3) Other operational services business

In the other operational services business, the forecasts are for net sales of ¥1,500mn (up 5.9% YoY), segment income of ¥300mn (down 13.2%), and an operating income margin of 20.0% (24.4% in the previous fiscal year). The forecast for reduced profit is due to anticipated costs such as repair and maintenance in the future.



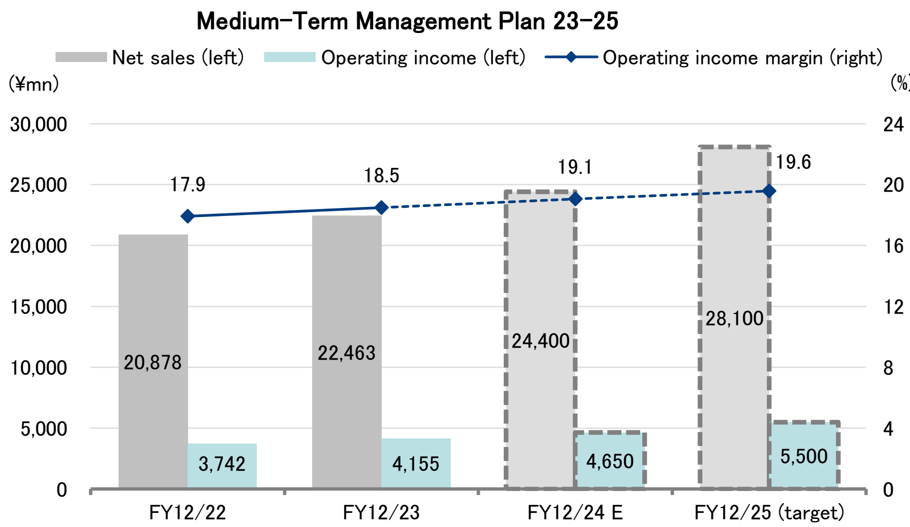
Note: Segment income is before deducting administrative expenses
Source: Prepared by FISCO from the Company's results briefing materials

Growth strategy

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

1. Overview of the medium-term management plan

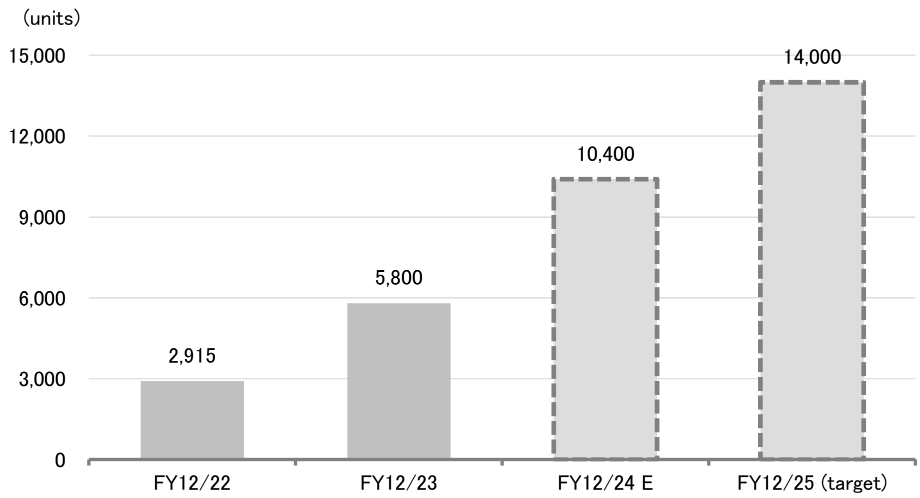
In February 2023, the Company announced Medium-Term Management Plan 23-25, stating that the previous Medium-Term Management Plan 22-24 would be discontinued after a single year due to the Company expecting to achieve its target profit in FY12/23, the second year of the plan, and also due to its switch 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 to transition to a 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 operating profit margin improvement with the aim of quickly achieving 20%. While these are very ambitious management goals, performance in FY12/23, the first year of the plan, exceeded the plan.



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

With respect to "reacceleration of openings," the Company plans to open 14,000 units in FY12/25, 4.8x the rate in FY12/22, and open 25,000 new units per year in FY12/29. Between FY12/16 and FY12/19, the Company opened around 10,000 new units per year, but opened only 1,614 new units 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 self-storage mini units and indoor trunk units inside buildings in addition to containers, consideration of M&A of other companies, and the systemization of agent business and commission business. We at FISCO believe 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. Actually, in FY12/23, the first year of the plan, there were 5,800 new units, significantly exceeding the 4,700 targeted under the plan.

Number of new units planned

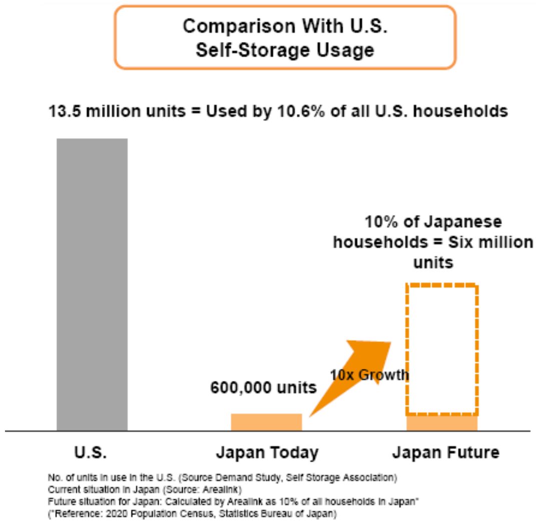


Source: Prepared by FISCO from the Company's results briefing materials

2. Storage market growth and issues

According to the Company, about 13.50mn 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 35.3m^2 versus the US average of 61.2m^2, 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 rates 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 (1) new unit strategies, (2) differentiation strategy, (3) overseas strategies, 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 units (in-building type), as well as expand openings of other products to match local needs, such as indoor-type trunk units in mainly urban areas (the 23 wards of Tokyo), container trunk units mainly in the suburbs, and self-storage mini units mainly in residential areas.

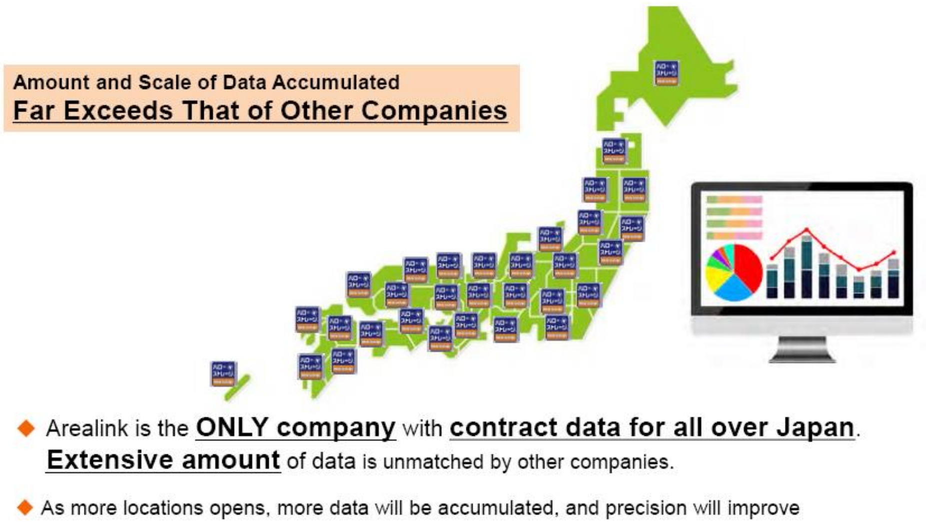
(2) Differentiation strategy

a) Converting customer information to data and accumulating it

The Company is accumulating hundreds of thousands of items of data, including on past cancellations. Partnering with a think tank, it is analyzing contracts, cancellations, campaigns, rent levels, regional data and other information from various perspectives, and will provide products with the number of units, types, sizes, and prices suited to each area. Backed by this detailed data, the Company is opening new units with high precision nationwide. In particular, results have clearly emerged since 2021, and high occupancy is being achieved at new and existing units.

The data accumulated thus far is at a scale that is far above other companies. In particular, only the Company has nationwide contract data, and this is a major strength. Going forward, when opening units, data will be accumulated and its precision will be increased, so the Company plans to convert customer information to data and promote its accumulation. It will be utilized to accelerate unit openings. In February 2024, the Company made a subsidiary of LIFULL SPACE Co., Ltd., which manages a self-storage unit search site, and adding the know-how accumulated by LIFULL SPACE Co., Ltd. to the Company's own data, it will work to increase the precision of truck units that are opened in the future. So these are activities in line with priority strategy.

Converting customer information to data and accumulating it



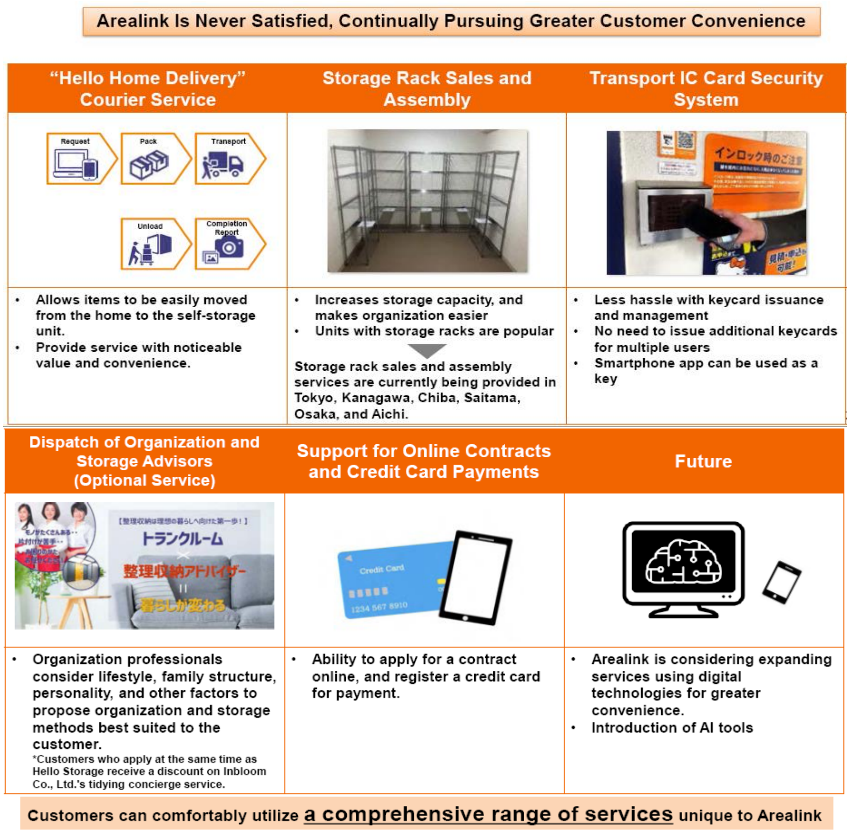
Source: The Company's results briefing materials

b) 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 unit, 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 units with racks, the Company has started offering a rack sale and assembly service in Tokyo, Kanagawa, Chiba, Saitama, Osaka and Aichi 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 units without the trouble of issuing and managing card keys. There is no need to increase the number of card keys when using multiple units. Units can also be unlocked using a smartphone app.

Moreover, dispatching organization and storage advisors (an optional service), the Company analyzes the customer's lifestyle, family makeup, and personality and proposes ways to organize storage in line with the customer. Also, it allows online applications and accommodates payment via credit card. Going forward, the Company will enhance digital utilization services and consider introducing AI tools so that its services can be used more conveniently.

Service development

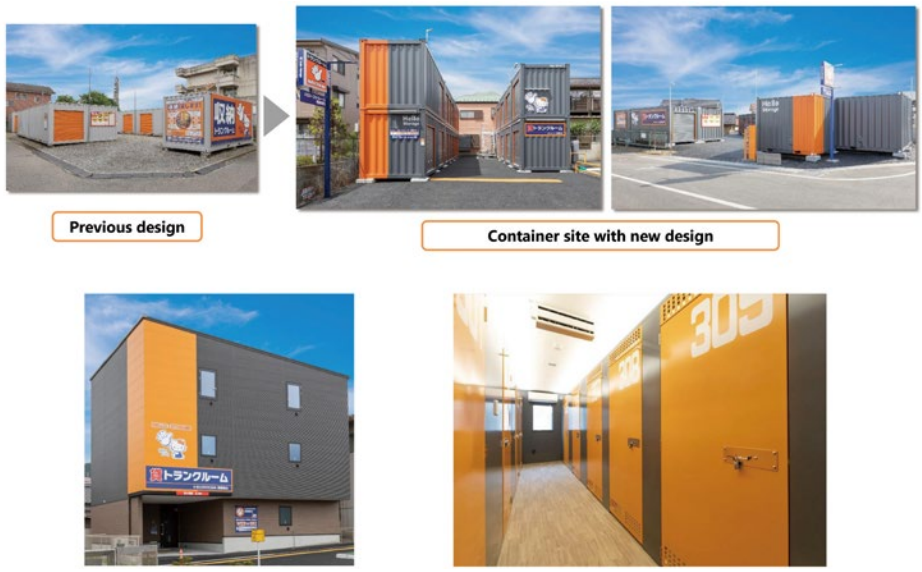


Source: The Company's results briefing materials

c) 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 gray and orange is calmer and cleaner to blend in with surrounding residences. The Company has also developed a new design for self-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. It currently owns properties in Texas, in the US, and Germany in Europe. 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 self-storage mini units 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 organization and storage 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 100,000 units with 80 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.

In this way, 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. Specifically, with regard to consideration for the environment, the Company is aiming to promote a comfortable and affluent society that values objects by utilizing self-storage, implementing the Container Building 100-Year Utilization Project and eliminating waste paper at the office (paperless), etc. In social contributions, the Company runs a human resource development program (to increase per-capita profit by utilizing the Arealink method), supports diverse work styles, and allows self-storage utilization in times of disaster, etc. In governance, two of the six board members are outside directors and there are four outside Audit and Supervisory Board members. It has established compliance and risk management systems, and provides stable shareholder returns with a target dividend payout ratio of 30%, etc. In recent years, there is a strong tendency for institutional investors and others to invest in companies that take ESG into consideration, and initiatives going forward are expected.

Shareholder return policy

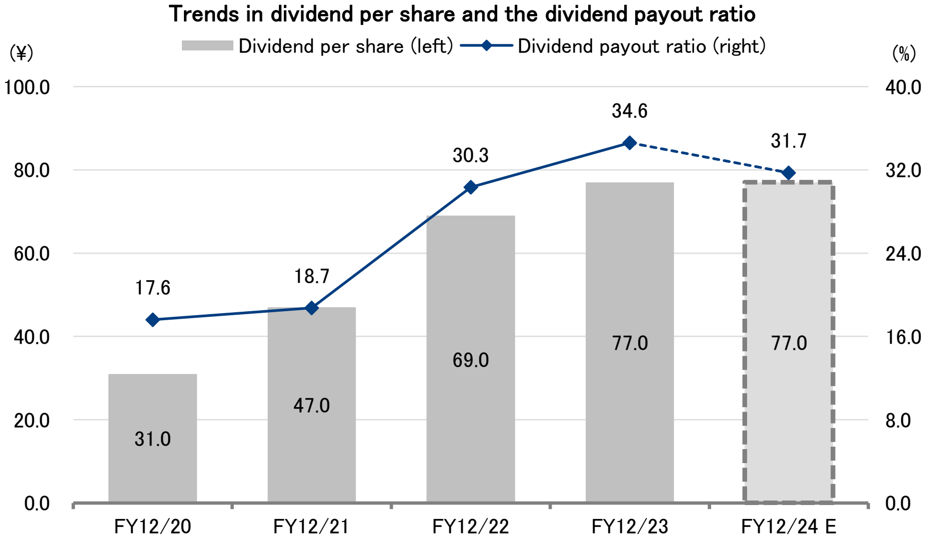
In FY12/23, a commemorative dividend was paid and the payout ratio reached 34.6%. For FY12/24 as well, planning to maintain a payout ratio of over 30%

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.

Earnings per share (EPS) had been affected the past three years by extraordinary gains and losses, but this returned to standard figures in FY12/23. In FY12/23, reflecting the strong performance, the Company paid a regular dividend of ¥67.0 per share, higher than its initial forecast of ¥62.0 and to commemorate 20 years as a publicly listed company it paid an addition ¥10.0 for a total dividend of ¥77.0 (¥8.0 above FY12/22), which raised the payout ratio to 34.6%. The Company is expecting higher profit in FY12/24 as well, and so is planning a regular dividend of ¥77.0 per share and a payout ratio of 31.7%.

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

Trends in dividend per share and the dividend payout ratio



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

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