COMPANY RESEARCH AND ANALYSIS REPORT

FJ Next Holdings Co., Ltd.

8935

Tokyo Stock Exchange Prime Market

24-Aug.-2022

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Summary

FY3/22 profits significantly exceeded initial forecasts following recovery from FY3/21 which was impacted by the COVID-19 pandemic

1. Company profile

FJ Next Holdings Co., Ltd. <8935> (hereafter, also "the Company") conducts its mainstay business of the development and sales of the Gala Condominium series, which are asset management-type condominiums located mainly in the center of Tokyo, and the Gala Residence series, which are condominiums for families. It also conducts a real estate management business, primarily for the properties that it has sold. It secures high occupancy rates through planning and development that are based on the residents' perspectives, such as for design features, safety, and comfort. In this way, it has increased the value of the Gala brand and boasts the leading sales performance in the Tokyo metropolitan area. The Company's results have been steadily expanding because demand is strong from individuals who feel concerned about the amount of future pension income, and also who are facing new problems, such as planning a response to inheritance tax. On October 1, 2021, with the aim of improving the corporate value of the Group, the Company changed its corporate name from FJ Next Co., Ltd. to FJ Next Holdings Co., Ltd., and transitioned to a holding company structure. From April 4, 2022, the Company moved to the new Tokyo Stock Exchange (TSE) Prime Market.

2. Summary of the FY3/22 results

In the FY3/22 results, net sales improved 12.7% year on year (YoY) to ¥82,258mn, and operating income increased 23.7% YoY to ¥9,095mn, both significantly exceeding the Company's initial forecasts. The number of condominium units sold was 2,456 units (up 443 units YoY), rebounding following FY3/21 when the Company showed self-restraint on sales activities due to the COVID-19 pandemic, and confirming that the COVID-19 pandemic did not affect demand for asset management-type condominiums. In the real estate management business, results grew steadily due to the rise in the number of managed rental units, while the Japanese inn business is gradually recovering from the impact of the COVID-19 pandemic in FY3/21. In profits also, the operating income margin increased to 11.1% (10.1% the previous fiscal period) due to a decrease in the SG&A expenses ratio from an improved sales cost ratio and higher sales.

3. FY3/23 forecasts

For the FY3/23 results, the Company is forecasting higher sales but lower profits, with net sales to increase 3.3% YoY to ¥85,000mn, and operating income to decrease 17.5% YoY to ¥7,500mn. Net sales are expected to be strong at each business despite the continued uncertain business environment due to the protraction of the COVID-19 pandemic. The number of condominium units sold in the real estate development business is expected to be 2,500 units (up 44 units YoY), almost back at the record level before the COVID-19 pandemic. On the other hand, the forecast for profit reduction are 1) the expected rise in raw material prices to a degree for each segment, and 2) the likelihood of a higher number of pre-owned condominiums for which customer demand is increasing and which have a relatively low profit margin, sold in the real estate development business.

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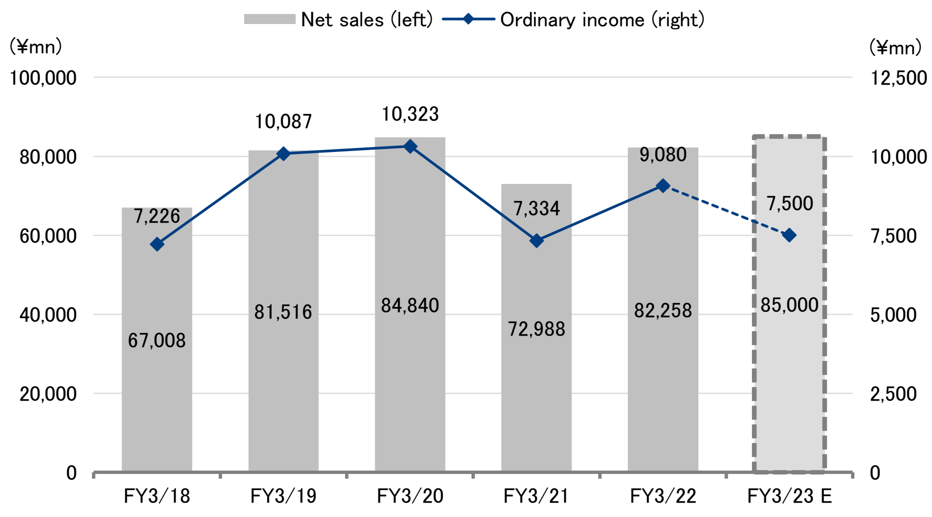
4. Growth strategy

The Company's policy is to realize sustainable growth by playing a socially significant role through its asset management-type condominium business, including by providing high-quality housing in the city center areas into which the population is regressing, and providing opportunities for long-term asset management, mainly for general office workers. Recently, there has been a trend for major developers to enter the asset management-type condominium market, and this can be said to be evidence of the fact that this market is recognized to be attractive. Real estate for rent under the COVID-19 pandemic is generally stable and demand for asset management-type condominiums has been confirmed to be strong. It seems important for the Company to continue with activities that will link its own growth to the development of the market as a whole through conducting sales with an eye to the future, such as utilizing content marketing (a membership base of around 250,000 people) and crowdfunding efforts.

Key Points

- FY3/22 profits significantly exceeded initial forecasts following recovery from FY3/21 which was impacted by the COVID-19 pandemic
- Strong demand for asset management-type condominiums was unaffected by the COVID-19 pandemic, and pre-owned condominiums, a business the Company is strategically working on
- Forecasts net sales growth but profit fall in FY3/23 from higher raw material prices, etc.
- Going forward, the strategy is to link its own sustainable growth to the development of the market as a whole, as a leading company

Results trends



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

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Company profile

Develops asset management-type condominiums under the Gala brand. Mainstay business is asset management-type condominiums located mainly in the center of Tokyo

1. Business overview

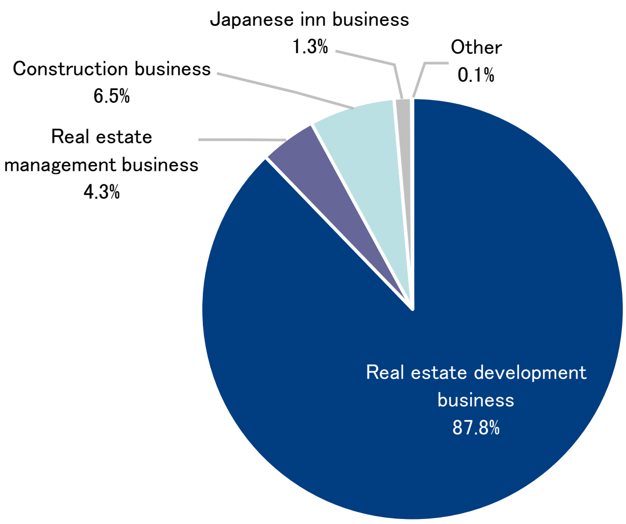
The Company's mainstay business is the development and sales of the Gala Condominium series, which are asset management-type condominiums located mainly in the center of Tokyo, and the Gala Residence series, which are condominiums for families. It also conducts a real estate management business, primarily of the properties that it has sold. It has four business segments: the real estate development business, the real estate management business, the construction business, and the Japanese inn business. The mainstay real estate development business contributes 87.8% of net sales.

Business content by segments

Real estate development business	The Company plans, develops, and conducts sub-lot sales of the studio-type condominium Gala Condominium series, which are mainly for asset management, and the family-type condominium Gala Residence series. It also conducts sub-lot sales, sales, and brokerage business for land and properties in the Izu region. It is actively working to expand purchases and sales of pre-owned condominiums. Mainly conducted by the Company's consolidated subsidiary FJ Next Co., Ltd.
Real estate management business	The Company mainly conducts a rental building management business of its sub-lot condominiums. It is conducted by the Company's consolidated subsidiary, FJ COMMUNITY CO., LTD.
Construction business	It mainly conducts the design, construction, inspection, and renovation of condominiums and other buildings. It is conducted by the Company's consolidated subsidiary RESITEC CO., LTD.
Japanese inn business	The Japanese inn business manages the Ito Yukitei and Ito Yukitei Kawana Bettei hot spring ryokans (Japanese inns) in Ito City, Shizuoka Prefecture, the Gyokuhokan hot spring ryokan in Kawazu Town, Kamo District, Shizuoka Prefecture, and the Seiryuso hot spring ryokan in Shimoda City, Shizuoka Prefecture. Operations are conducted by the Company's consolidated subsidiary FJ RESORT MANAGEMENT CO., LTD.

Source: Prepared by FISCO from the Company's materials

Sales ratios by segment (FY3/22)

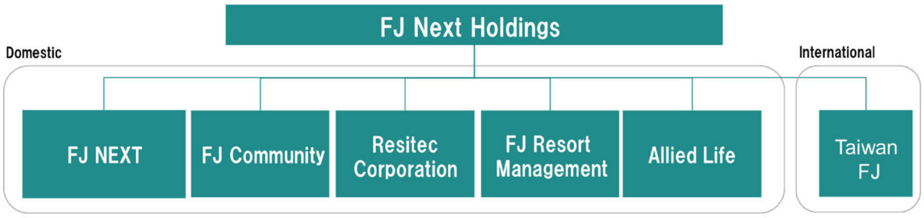


Source: Prepared by FISCO from the Company's financial results

2. Transition to a holding company structure

The Company transitioned to a holding company structure on October 1, 2021. By separating Group management functions from business execution functions, the Company aims to achieve swift decision making and expertise, while also creating a robust governance structure. As part of this, the Company changed its corporate name from FJ Next Co., Ltd. to FJ Next Holdings Co., Ltd., and had FJ Next Co., Ltd., newly formed on April 1, 2021, succeed to the real estate development business. The real estate management business is conducted by FJ COMMUNITY CO., LTD., the construction business is conducted by RESITEC CO., LTD., and the Japanese inn business is conducted by FJ RESORT MANAGEMENT CO., LTD.

New Group structure



Source: The Company's results briefing materials

3. History

Mr. Yukiharu Hida, the Company's current Chairman has said that "We want to support customers' asset management and increase the value of their real estate by creating high-quality living spaces that people will enjoy living in, and by building a comprehensive asset management and management system in order to maintain asset value over the long term," while its management philosophy is "Contributing to the formation of an affluent society through taking on the challenge of creating urban living spaces." Based on these philosophies, the Company was established in July 1980 as Fudo Juhan Co., Ltd.

In 1991, it changed its company name to FJ Next Co., Ltd. In 1994, it launched sales of the Gala Condominium series, which is its own brand, and its results have steadily expanded against the backdrop of growth in demand for rental properties and also the demand for purchases in the Tokyo metropolitan area. In particular, the Company's results have been supported by the improvement in the trust placed in and the awareness of the Gala brand, which prioritizes profitability based on a calculation of a profit-return method.

When the Company was listed on JASDAQ in 2004, its credit and financial strength as a listed company, in addition to its track record of supplying properties up to that time, gave it an advantage in sales and supply development, which accelerated its growth. In 2005, the Company says it ranked first for the first time in the number of investment condominiums supplied in the Tokyo metropolitan area (from research by the Real Estate Economic Institute Co., Ltd.). It was listed on the Second Section of the Tokyo Stock Exchange (TSE) in March 2007, and then upgraded to the First Section in October 2013. On October 1, 2021, with the aim of improving the corporate value of the Group, the Company transitioned to a holding company structure, and changed its corporate name to FJ Next Holdings Co., Ltd. From April 2022, the Company moved to the new TSE Prime Market.

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Characteristics of the Company

Leveraging its position in the industry, its strengths are creditworthiness, financial strength, and information volume

1. Growth model

The Company's growth model is comprised of two growth drivers: expanding the asset management-type condominium market itself and maintaining and improving its market share. In other words, to understand its growth potential, it is important to ascertain two aspects: whether the asset management-type condominium market in the Tokyo metropolitan area will develop, and how will the Company be able to demonstrate its competitive advantages considering this development. In addition, a feature of the real estate management business, which is ancillary to the main business, is that it supports profits as a stock business that accumulates income.

Moreover, recently the Company has expanded its handling of pre-owned condominiums. In FY3/22, the Company sold 1,025 pre-owned condominiums. With a company history of over 40 years and many customers gained over this time, the Company believes after-sale follow up services are also important. By quickly identifying customer needs such as restructuring of portfolios, and offering appropriate advice, it sometimes makes purchases from customers. Appropriate management by Group companies after the sub lotting of condominiums developed by the Company maintains their asset value, and purchased condominiums can be immediately sold without implementing special value enhancement measures. The Company's comprehensive capabilities of after-sale follow-up services and management operations that maintain condominium asset value, as well as its strong customer base, have contributed to the expansion of its pre-owned condominiums business, which has become one of the Company's strengths.

Additionally, the Company has also been active in the development and sale* of family-type condominiums. Its mainstay business is providing asset management-type condominiums on the assumption they will be held for the long term. But business development into fields utilizing the management resources it has cultivated up to the present time (including its financial base and information capabilities) can be expected to improve results while also reducing risk, and thereby have the effect of adding depth to the profit structure (management stability).

* The (cumulative) number of family-type condominiums supplied in the Gala Residence series has steadily increased to 2,068 units (up to FY3/22). Looking to the future also, it is currently progressing new projects including Gala Residence Kawaguchi-Nishiaoki (scheduled to be completed in February 2023) and Gala Residence Funabori Promenade (scheduled to be completed in March 2023).

2. An overview of asset management-type condominiums and their future development potential

In order to judge the future development potential of asset management-type condominiums, it is necessary to understand their mechanism, product characteristics, and social significance.

(1) Mechanism

The objective for asset management-type condominiums is not for the purchaser (the owner) to live in them, but to earn rental income by renting them to a third party. Therefore, the Company stably generates rental income, and thereby builds the trust of the owners, by securing high occupancy rates through the development of condominiums that ascertain the needs of residents, in addition to having good locations.

(2) The aim and merits for the owners

Following the increased awareness of its products, many owners in recent years have been general office workers, and in most cases, they purchase with the aim of conducting asset management for the future. While securing the funds for the purchase from a home loan, generally, the monthly repayments are within the range of rental income and the owners' plan is to complete the repayments by the time they retire. Therefore, in principle, they can carry out asset management for the future from a long-term perspective without it affecting their daily lives. Also, in addition to the fact that stable rental income plays the role of a private pension in old age, a feature is that they have various other financial benefits, including replacing life insurance with a home loan set with group credit life insurance, responding to inheritance tax measures (reducing the inheritance tax assessment amount) and diversifying investments. In particular, in addition to the introduction of a negative interest rate policy and concerns about the amount of future pension income, the need for new measures to respond to inheritance tax (such as the increase of taxable income due to the reduction in the basic exemption) has drawn attention to asset management-type condominiums.

(3) Social significance

The main customer group for asset management-type condominiums is general office workers, and the business has the social significance of providing opportunities for long-term asset management while offering high-quality rental properties in city center areas into which the population is regressing. In the future also, it is forecast that the trends of an increase in the number of single-person households and the regression of the population to city centers will continue. It considered that the importance of providing infrastructure to support single persons living actively in city centers will increase more and more.

3. The Company's features (competitive advantages)

The Company boasts the highest number of units sold in the Tokyo metropolitan area, and its competitive advantages can be summarized as follows.

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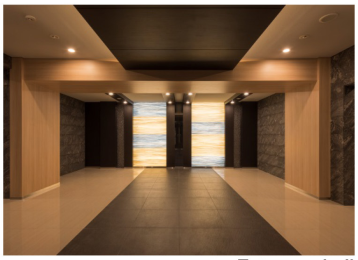
(1) Provides high-quality living environments based on a clear product concept

The Company is developing the asset management-type Gala Condominium series and the family-type condominium Gala Residence series as its own brands. It conducts planning and development from the perspective of residents, which has increased the value of the Gala brand, and this is demonstrated by its track record of supplying properties and high occupancy rates up to the present time. In particular, the features of its mainstay, asset management-type Gala Condominium series are entrances with a dignified feeling, external appearances featuring excellent designs, and facilities specifications that emphasize safety and comfort. The construction business divisions within the Group are responsible for construction inspections, which contributes to improving the quality of properties sold. Gala Hills Shinjuku won the National Association of Living Industries'*1 4th Excellent Project Award*2 in 2014, and Gala Precious Kawasaki won the 7th Excellent Project Award in 2017. In addition, based on the expertise that the Company has cultivated for asset management-type condominiums, the features of the family-type condominium Gala Residence series are easy traffic access, a surrounding environment that has comfortable transportation access and is rich in amenities and convenience, and advanced design features with high basic performance.

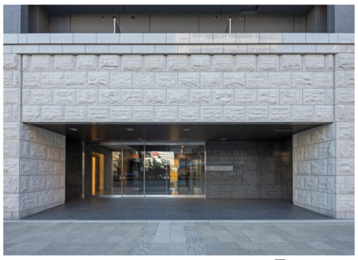
*1 This organization has 1,700 companies in Japan in the real estate industry, mainly consisting of mid-sized companies but also including listed companies.
*2 With the aim to promote quality housing provision and development of living environments, etc., this award is bestowed upon excellent projects, selected from among projects implemented by members of the National Association of Living Industries, that excel in creativity to form good living environments through sociability, product planning, residential performance and design, as well as harmony with the townscape, surrounding environment, etc.

Gala Precious Kawasaki (a total of 273 units)


Exterior


Entrance hall


Front services counter


Entrance

Source: The Company's press release

On May 27, 2022, the Gala Residence series won awards in the Quality and Price Balance category and the Customer Service Satisfaction category at the SUUMO AWARD (2022 Tokyo Metropolitan area)* customer satisfaction rankings as selected by new condominium buyers. This can be seen as evidence that the Company's track record of supplying over 20,000 units and having provided higher quality home building and services are winning the trust of customers.

* Rankings for various aspects of satisfaction such as quality, price, and initiatives of condominium developers and sub-lot condominium sellers compiled by Recruit Co., Ltd. based on the views of new condominium buyers in the Tokyo metropolitan area.

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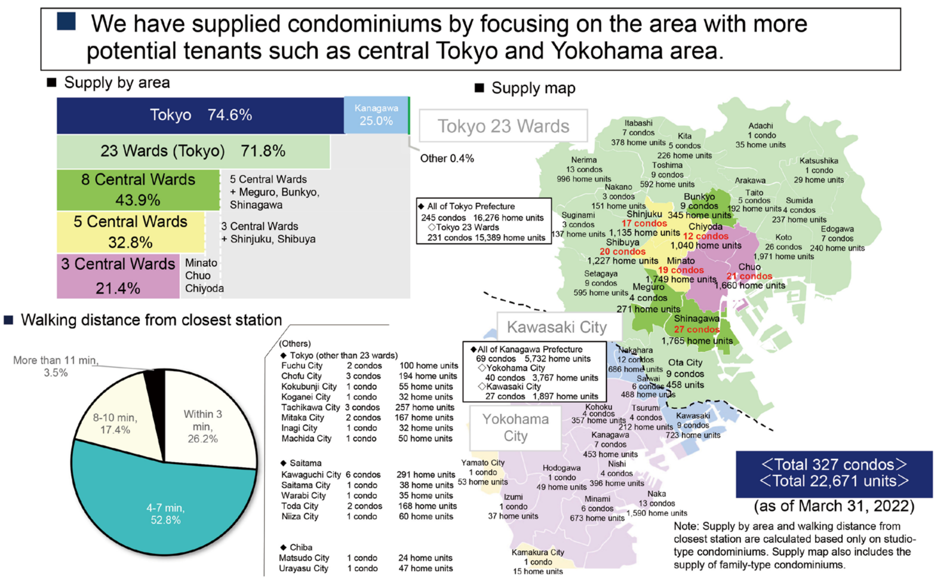
(2) Focuses on good locations and information capabilities

It goes without saying that the most important element in the evaluation of the asset value of rental housing is a good location. Therefore, whether a company is able to purchase land in good locations will greatly influence its competitiveness. On the other hand, there is a tendency for location information to gather in companies with a track record of results and financial strength, so there is an industry structure in which the strong become even stronger. In the case of the Company, it has industry-leading sales results, strong brand power, and a stable financial base. It also has a competitive advantage in terms of information capabilities, and it is considered that this is producing a virtuous circle, as it further improves its sales results (it has a record of providing a cumulative total of more than 20,000 units up until now) and brand power, which in turn increases its information capabilities. The Company specializes in areas in which the need for housing is high, particularly in central Tokyo, Yokohama, and Kawasaki. In addition, it provides housing in carefully selected locations; for example, more than 96.0% of its properties are within 10 minutes of their nearest station.

Supply area of condominiums in the Gala brand



Source: The Company's supplementary results briefing materials

(3) High-level rental management expertise and extensive after-sales support

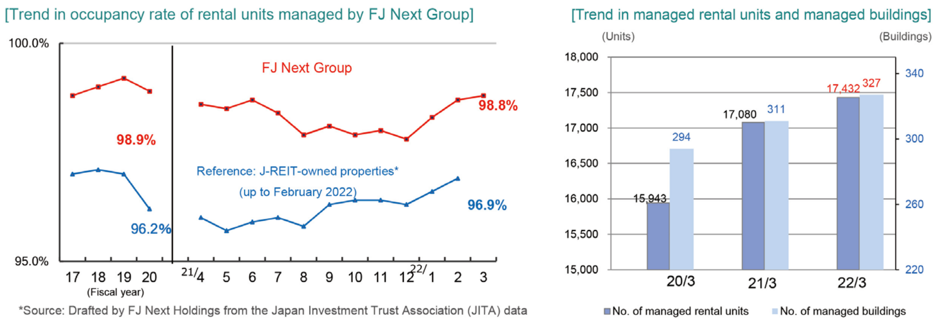
The Company aims to retain its occupancy rates by maintaining its asset value through real estate management of properties it sold and provision of services that are useful for the residents' lives (concierge services). In addition, it offers complete after-sales support, such as reviewing asset management plans and providing consultations on selling properties, which earns it the strong trust of owners. Looking at the results for the number of managed rental units, this number has grown steadily year by year alongside the results for the supply of its own-brand properties, and by the end of FY3/22, it had increased to 17,432 units. On the other hand, the occupancy rates have trended stably at extremely high levels, 98.8%* at the end of March 2022, due to the Company's strict selection of good locations and its accumulation of management expertise.

* For your reference, the occupancy rate for J-REIT-owned properties is 96.9% (as of February 28, 2022; Source: The Investment Trusts Association, Japan), so the Company's occupancy rate is above this rate.

The Company has taken steps to offer various added-value to achieve more comfortable and safe home building by collaborating with other companies, such as its collaboration with Cookpad Inc., in which the Company has installed delivery lockers for fresh goods*1 (October 2020), introduced a flood and earthquake sensor monitoring system*2 in collaboration with a security company, (October 2021), and providing a service using an after-hours emergency medical care platform*3 through its collaboration with Fast DOCTOR Co., Ltd. (April 2022).

*1 Installation of delivery lockers at large-scale properties with a total of at least 100 units, that allows residents to have fresh goods ordered via an app delivered to the common area of their condominium property.
*2 Permanent monitoring system for heavy rain and earthquakes. The system works by sensors detecting flooding and earthquakes, notifying the security company, who rush to the scene. This enables a swift initial response, and helps prevent or reduce the impact of a natural disaster on the condominium.
*3 Provides free medical diagnosis during night time and holidays when hospital access is difficult.

Trend in occupancy rate and number of managed rental units and number of managed properties



Source: The Company's supplementary results briefing materials

(4) Attributes of owners and residents

Most owners are general office workers such as company employees or public servants, with approximately 86.0% in their 20s to 40s. Also, even though the locations of the properties are in the Tokyo metropolitan area, the owners live throughout the country, showing that their objective for their purchase is long-term asset management. On the other hand, the residents are often company workers in their 20s to 30s living alone, and because the properties have excellent locations, facilities, and specifications, there is strong demand for them as company housing. They are also very popular among women thanks to their high-level security and kitchen and bathroom facilities.

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Industry environment

Investment condominiums in the Tokyo metropolitan area are trending strongly, supported by individual investment needs

1. Sales environment

The number of investment condominiums supplied in the Tokyo metropolitan area steadily grew from the second half of the 1990s to the first half of the 2000s. However, it subsequently trended downward as a succession of businesses fell into bankruptcy and withdrawal due to soaring land prices and the economic crisis triggered by the global financial crisis in 2008. But this decline bottomed out in 2010, and in the last few years, rental demand in the Tokyo metropolitan area has been growing against the backdrop of the increase in the number of single-person households and the regression of the population to the city center*. Furthermore, in addition to the continuing low interest rates and concerns about the amount of future pensionincome, a new need has emerged for measures to respond to inheritance tax (due to the reduction in the basic exemption, etc.). While the overall condominium industry is headed towards an adjustment phase due to a rise in property prices, robust demand for purchases from individuals has supported a strong performance. The background to this is considered to be that as an asset management method for the future, purchasing an investment condominium can be expected to provide tax benefits and an insurance function, while also offering a sense of security as a stable source of cash flow and an investment in a tangible asset when compared to other assets, such as stocks, investment trusts and bonds. In recent years, small-lot financial products starting from ¥10,000 per unit have made investing easier, creating investment opportunities for a younger generation and expanding the range of real estate investment.

* Looking at the social change by prefecture (= number transferring in – number transferring out (excluding foreigners)) according to the Ministry of Internal Affairs and Communications' Population, Demographics and Household Number based on Basic Resident Registration (released in August 2021), Tokyo came in first with 60,501 people, while Kanagawa Prefecture came in second with 36,006 people. This shows there has been no change to the Company's supply area remaining top even during the COVID-19 pandemic.

2. The purchase and development environment

On the other hand, in terms of purchases and development, as land purchase prices and construction costs remain at high levels, it has become even more important to ascertain which sites will be profitable, and it is increasingly likely that business results will be determined by the outcomes of land purchases. The Company utilizes its credit-worthiness, financial strength, and abundant information capabilities, and has consistently emphasized profitability in purchasing activities since its establishment.

3. Competitive environment

Its industry peers are mostly specialists in investment condominiums, and the industry structure is that there are many companies that are comparatively small in scale. In this situation, the Company has constantly achieved the leading sales results in the ranking of the number of investment condominium units supplied in the Tokyo metropolitan area. Recently, there has been a movement toward entry by major developers that have an eye on the market's expansion.

Results trends

FY3/22 saw profits significantly exceed initial forecasts. Strong demand for asset management-type condominiums was unaffected by the COVID-19 pandemic, and the Company is maintaining the stability of its financial foundation at a high level

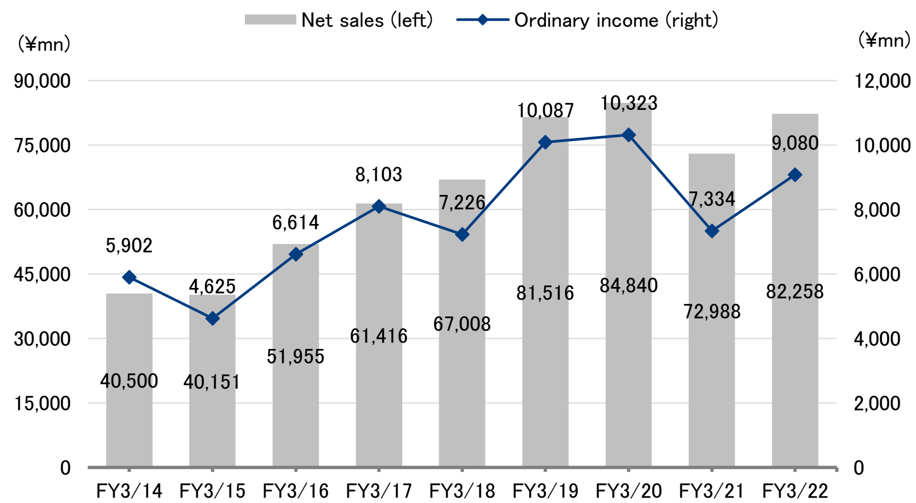
1. Trends in past results

On looking back on past results, we see that they have trended steadily as a whole, supported by growth in rental demand and the demand for purchases of asset management-type condominiums in the Tokyo metropolitan area. The results hit bottom in FY3/09 due to the effects of the economic recession following the 2008 global financial crisis. But based on its policy of continuing to make purchases based on profitability rather than focusing only on purchasing, and steadily advancing property development, the Company was able to ride out the recession with a comparatively small decline in contrast to the real estate industry as a whole, which suffered greatly. Subsequently, its results expanded steadily alongside the economic recovery. Since FY3/16 in particular, its sales and profits have continued to increase significantly, and net sales achieved record highs for five consecutive periods until FY3/20. Sales declined temporarily in FY3/21 due to the impact of the COVID-19 pandemic, but rebounded significantly in FY3/22. This shows that even though the Company has built up a history, it is still in a growth phase.

Financially, the interest-bearing debt balance has increased alongside the growth in the results, while the equity ratio is also maintained at a high level due to the accumulation of internal reserves, and there are no concerns about the stability of its financial base.

The reasons why the Company was able to ride out the severe market environment that followed the economic crisis triggered by the 2008 global financial crisis comparatively smoothly can be said to be as follows: the high asset value of the Gala brand that prioritizes profitability based on a profit-return method, the strict selection of good locations, and the stability of its financial base.

Trends in net sales and ordinary income



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

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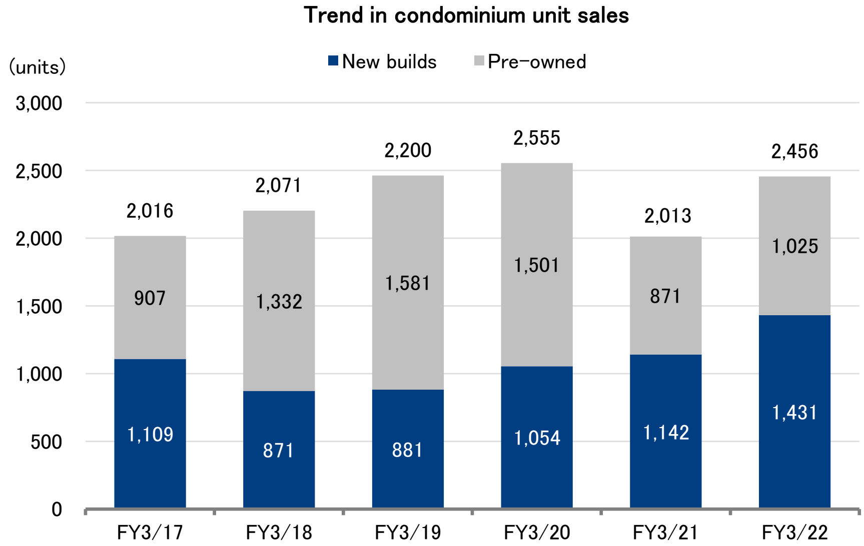
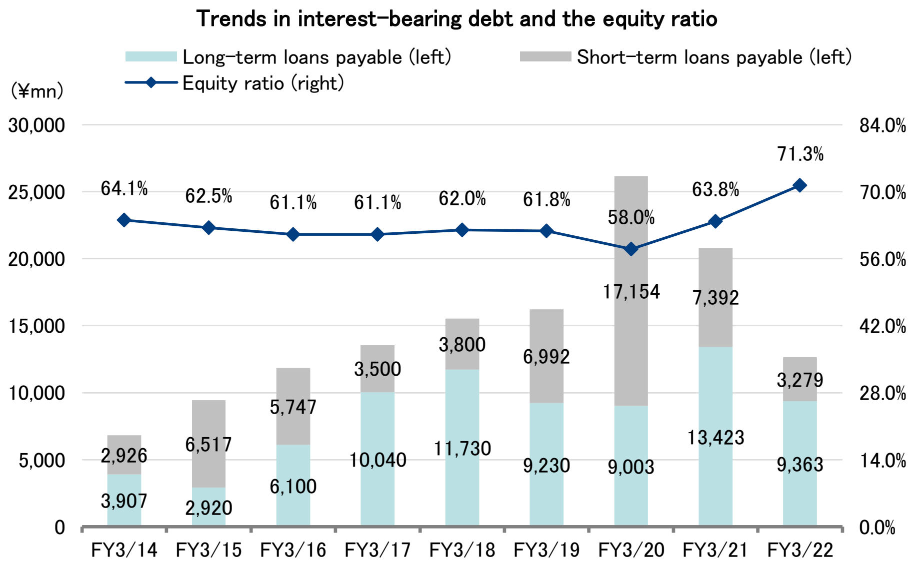


Source: Prepared by FISCO from the Company's supplementary results briefing materials



Note: Short-term loans payable include long-term loans payable scheduled to be repaid within one year
Source: Prepared by FISCO from the Company's financial results

2. Summary of the FY3/22 results

In the FY3/22 results, net sales improved 12.7% YoY to ¥82,258mn, operating income increased 23.7% YoY to ¥9,095mn, ordinary income rose 23.8% YoY to ¥9,080mn, and net income attributable to shareholders of the parent company increased 27.2% YoY to ¥6,338mn, with profits significantly exceeding initial forecasts.

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Net sales increased in the following three businesses: the real estate development business, the real estate management business, and the Japanese inn business. In the mainstay real estate development business, the number of condominium units sold was 2,456 units (up 443 units YoY)*1, a significant increase compared to FY3/21 when the Company showed self-restraint on sales activities due to the COVID-19 pandemic, confirming that the COVID-19 pandemic did not affect demand for asset management-type condominiums. The better-than-expected results were due to both higher-than-expected number of sold units and higher sale prices. In the real estate management business, results improved steadily due to the rise in the number of managed rental units *2, while the Japanese inn business is gradually recovering from the impact of the COVID-19 pandemic in FY3/21. The construction business was the sole business to see a net sales decrease, mainly due to delays in construction periods, but the order environment remained favorable centering on condominium construction and large-scale repair work.

*1 Of the 2,456 sold units, sales of pre-owned condominiums, a business the Company is strategically working on, and condominiums for families improved greatly, accounting for 1,025 units (up 154 units YoY), and 230 units (up 57 units YoY) respectively, which led the growth of results.

*2 At the end of FY3/22, the number of managed rental units increased to 17,432 units (up 352 units YoY), and the number of managed properties increased to 327 properties (up 16 properties).

Profits improved, pushed up by the increase in sales. By reviewing sales prices, the cost of sales ratio improved year on year even though land purchase prices and construction costs remained high. The SG&A expenses increased due to advertising expenses and other factors, but the SG&A expenses ratio fell from the increase in sales, and the operating income margin rose to 11.1% (10.1% in the previous fiscal period).

On the other hand, for the balance of inventory assets (pipeline) that will affect results growth in the future, strong sales and some transfers of real estate for sale to fixed assets (rental properties owned by the Company), real estate for sale (completed condominiums) temporarily declined YoY*1. By contrast, real estate for sale in process (development land and condominiums being developed) improved YoY even amid a challenging purchase environment, thanks to the continuation of profitability-focused purchases. The transfer of some real estate for sale to fixed assets was to secure stable rental income*2 from owned properties.

*1 Real estate for sale at the end of FY3/22 declined temporarily to 677 units (down 790 units YoY), but the Company intends to cover this by aggressively purchasing pre-owned condominiums.

*2 Rental income is included in the real estate development business. In FY3/22, rental income decreased slightly by 1.9% YoY to ¥7,373mn, but maintained its high level and underpinned earnings.

Looking at the Company's financial condition, as previously stated, inventory assets (real estate for sale, real estate for sale in process) declined, but cash and deposits and property, plant and equipment increased. As a result, total assets were down 2.0% from the end of the previous year to ¥82,659mn. Conversely, shareholder's equity increased 9.4% to ¥58,917mn due to the accumulation of internal reserves, and therefore the equity ratio rose sharply to 71.3% (63.8% at the end of the previous period). Interest-bearing debt decreased 39.3% to ¥12,643mn, and the interest-bearing debt dependence* declined to 15.3% (24.7% in the previous fiscal period). The current ratio, which indicates payment capabilities, is also at the high level of 644.4%, so there are no concerns about financial soundness. ROE, which shows capital efficiency, increased to 11.2% (9.6%), returning to above the 10% level, so it can be said that the Company's financial position is well balanced.

* Interest-bearing debt/(total liabilities + net assets)

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Overview of FY3/22 results

(¥mn)

	FY3/21		FY3/22		YoY		FY3/22		Initial forecast	
	Results	% of sales	Results	% of sales	Change	Change (%)	vs. forecast	% of sales	Change	Change (%)
Net sales	72,988		82,258		9,269	12.7%	81,000		1,258	1.6%
Real estate development business	62,540	85.7%	72,249	87.8%	9,708	15.5%	-	-	-	-
Real estate management business	3,162	4.3%	3,485	4.2%	323	10.2%	-	-	-	-
Construction business	6,243	8.6%	5,371	6.5%	-871	-14.0%	-	-	-	-
Japanese inn business	994	1.4%	1,095	1.3%	100	10.1%	-	-	-	-
Cost of sales	55,882	76.6%	62,518	76.0%	6,635	11.9%	-	-	-	-
Gross profit	17,105	23.4%	19,739	24.0%	2,633	15.4%	-	-	-	-
SG&A expenses	9,754	13.4%	10,644	12.9%	889	9.1%	-	-	-	-
Operating income	7,351	10.1%	9,095	11.1%	1,743	23.7%	8,000	9.9%	1,095	13.7%
Real estate development business	5,869	9.4%	7,536	10.4%	1,666	28.4%	-	-	-	-
Real estate management business	898	28.4%	882	25.3%	-15	-1.8%	-	-	-	-
Construction business	592	9.5%	646	12.0%	53	9.1%	-	-	-	-
Japanese inn business	-39	-	-20	-	18	-	-	-	-	-
Ordinary income	7,334	10.0%	9,080	11.0%	1,745	23.8%	8,000	9.9%	1,080	13.5%
Net income attributable to shareholders of parent company	4,983	6.8%	6,338	7.7%	1,355	27.2%	5,500	6.8%	838	15.2%
Condominium unit sales	2,013		2,456		443	22.0%	2,400		56	2.3%
Gala Condominium series	969		1,201		232	23.9%	-	-	-	-
Gala Residence series	173		230		57	32.9%	-	-	-	-
pre-owned condominiums	871		1,025		154	17.7%				
Balance of inventory assets	42,603		30,287		-12,316	-28.9%				
Real estate for sale	26,190		11,262		-14,927	-57.0%				
Real estate for sale in process	16,413		19,025		2,612	15.9%				
Total assets	84,375		82,659		-1,715	-2.0%				
Shareholders' equity	53,869		58,917		5,048	9.4%				
Equity ratio	63.8%		71.3%		7.5pt	-				
Interest-bearing debt	20,815		12,643		-8,172	-39.3%				
ROE	9.6%		11.2%		1.6pt	-				

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

3. FY3/23 forecasts

For the FY3/23 results, the Company is forecasting higher sales but lower profits, with net sales to increase 3.3% YoY to ¥85,000mn, operating income to decrease 17.5% YoY to ¥7,500mn, ordinary income to decrease 17.4% YoY to ¥7,500mn, and net income attributable to shareholders of the parent company to decrease 21.1% YoY to ¥5,000mn. The reasons for the forecast for profit reduction are 1) the expected rise in raw material prices to a degree for each segment, and 2) the likelihood of an increase in the number of pre-owned condominiums*, for which customer demand is increasing, sold in the real estate development business.

* Pre-owned condominiums have a relatively low profit margin compared to new condominiums.

Despite a continued uncertain business environment due to the protraction of the COVID-19 pandemic and rising raw material prices, net sales are expected to be strong at each business from the adoption of sales method utilizing IT, and the development of distribution channels that ascertain needs. The number of condominium units sold in the real estate development business is expected to be 2,500 units (up 44 units YoY), almost back at the record level before the COVID-19 pandemic. For profits, the Company conservatively estimates the impact of rising raw material prices and the sales increase in pre-owned condominiums, and forecasts a fall in the operating income margin to 8.8% (11.1% in the previous fiscal year).

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Forecast for FY3/23

(¥mn)

	FY3/22		FY3/23		YoY	
	Results	% of sales	Forecast	% of sales	Change	Change (%)
Net sales	82,258		85,000		2,741	3.3%
Operating income	9,095	11.1%	7,500	8.8%	-1,595	-17.5%
Ordinary income	9,080	11.0%	7,500	8.8%	-1,580	-17.4%
Net income attributable to shareholders of parent company	6,338	7.7%	5,000	5.9%	-1,338	-21.1%

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

At FISCO, we think that it will be necessary to monitor uncertain economic conditions such as the protraction of the COVID-19 pandemic and rising raw material prices, but that the Company's results forecasts are fully achievable. This is because rental demand is solid in the Tokyo metropolitan area, potential purchase demand including pre-owned condominiums is also firmly rooted, and the Company is conservative in factoring in negative factors for profits. With concerns being raised over the impact of rising raw material prices on construction costs, FISCO believes sales of pre-owned condominiums, a business the Company is strategically working on, will underpin results. Looking at it another way, FISCO considers it highly likely that the Company will lead the pre-owned condominiums sales market because it offers solid maintenance for asset value including strong brand power and after-sales support. In addition to the pipeline (site purchases, etc.) that will feed into stronger results from FY3/24 onwards, FISCO also focuses on condominiums for families which is entering a growth trajectory.

Growth strategy

A top niche strategy that connects overall market expansion with Company growth. Seeks to create new investment opportunities through content marketing and online seminars, as well as crowdfunding

The Company's growth strategy would seem to be to further improve management efficiency and its competitive advantages by specializing in asset management-type condominiums in the Tokyo metropolitan area (particularly in the city center), and also a top niche strategy that connects overall market expansion with its own growth. Looking at this from the opposite direction, we can see there is a growth bottleneck (constraint), in which growth is determined by market trends. Therefore, a key point for the Company, which leads its industry, would seem to be how it will promote the sound development of the asset management-type condominium market.

Through partnerships with other companies, it is creating a database of prospective customers who have expressed an interest in its products (potential owners) and it is focusing its efforts into expanding the market base from a long-term perspective by aiming to increase awareness and understanding of asset management-type condominiums through various measures, such as content marketing (Gala Navi)*1 that regularly provides potential customers with information by email and other means. In April 2016, it newly established its own seminar room, and every month it holds seminars on themes in accordance with the various needs of customers, from beginner investors through to owners by such means as seminars and individual consultation sessions. There are also high expectations for the results of other activities, in which the Company actively promotes tie-up seminars (FJ College)*2 with specialists in certain fields, financial institutions, and companies offering services for asset management (utilizing online seminars during the COVID-19 pandemic). On May 10, 2022, the Company also commenced crowdfunding*3. The No. 1 Fund GALA FUNDING#1 (Shirokane Takanawa) reached its full target amount within five minutes of opening for applications, demonstrating a high level of interest. The No. 2 Fund GALA FUNDING#2 (Higashi Azabu) application period has ended, and the make-up of the No. 3 Fund is being prepared. This has drawn interest in future developments as a method for creating new opportunities for investment in asset management-type condominiums.

*1 The Company distributes content on asset management-type condominiums and a wide range of themes such as information on life plans, money, etc. (regularly providing content exclusively for members on the website and via the e-mail magazine), and it has more than 250,000 members.

*2 The Company says it has had more than 4,000 visitors (including from online seminars). Many of these visitors were young investors aiming to form assets for the future.

*3 A service that raises funds from multiple investors through the Internet, and conducts real estate investment using such funds. The Company started applications for its No. 1 Project (Takanawa 1-chome, Minato-ku, Tokyo) on May 10, 2022. One investment unit was ¥10,000, with an expected distribution rate of 5.0% after a six-month utilization period.

In addition, while focusing on asset management-type condominiums, the Company is aiming to further expand the scope of its business and acquire earning opportunities, while its policy for its family-type condominium business is to steadily accumulate a track record of results.

At FISCO, we judge that it is highly likely that the Company will achieve sustainable growth. This is because, despite the concerns about the external environment, including the effects the COVID-19 pandemic and rising land purchase prices and construction costs, the demand from residents and owners for asset management-type condominiums in the Tokyo metropolitan area is strong and there remains sufficient room for growth in the future. It is also because the Company is deploying a comparatively robust business model (such as a conservative purchasing policy and financial strength, and a focus on high-quality rental housing) and a stock business (for example, rental management operations and asset management operations, including for the properties of other companies). The Company is increasing its presence in the condominium developer industry and the stock market, and achieving net sales of ¥100bn looks to be the long-term milestone for raising itself to the next level.

Recently, there has been a trend for major developers to enter the asset management-type condominium market, and this can be said to be evidence of the fact that this market is recognized to be attractive. Even during the COVID-19 pandemic, real estate for rent has been stable as a whole, which has confirmed that demand for asset management-type condominiums is firmly rooted. Because of the sense of uncertainty that prevails about economic conditions in the future, at FISCO, we think it will be important for the Company to continue with activities that link its own growth to the development of the market as a whole through conducting sales with an eye to the future, such as utilizing content marketing (a membership base of around 250,000 people) and crowdfunding efforts.

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Initiatives for CSR and information security

Actively practicing CSR as the leading company

As the leading company representing its industry, the Company is actively conducting corporate social responsibility (CSR) activities and environmental measures. Specifically, it is adopting various environmentally friendly equipment, including LED lighting, environmentally friendly plywood (for example, sustainable timber supplied from forests with permission for afforestation from the government of the producing country), interior materials with low formaldehyde specifications to address sick building syndrome, air conditioners that are compliant with energy-saving standards (installed as standard), and water-saving toilets. It is also advancing the greening of the roofs of its condominiums as part of its measures to respond to the heat island effect.

Moreover, the Company is participating in the "Fun to Share" activities to prevent global warming that are being promoted by the Ministry of the Environment, and it is conducting various in-Company eco-activities, including implementing Cool Biz and Warm Biz, converting office lighting to LED, effectively using vinyl umbrellas (sharing umbrellas that are not being used within the Company), and establishing an in-Company library (recycling of unwanted books and magazines). In addition, it supports the environmental conservation activities being conducted in Akagi Nature Park (Shibukawa City, Gunma Prefecture), and is planting trees in developing countries (in Africa and Asia) through Green Site License. The Company also started an initiative in April 2022 to achieve zero emissions in the disposal of company uniforms*.

* Promotes the recycling of work uniforms worn by the Company's condominium management work staff to reduce CO_2 omissions.

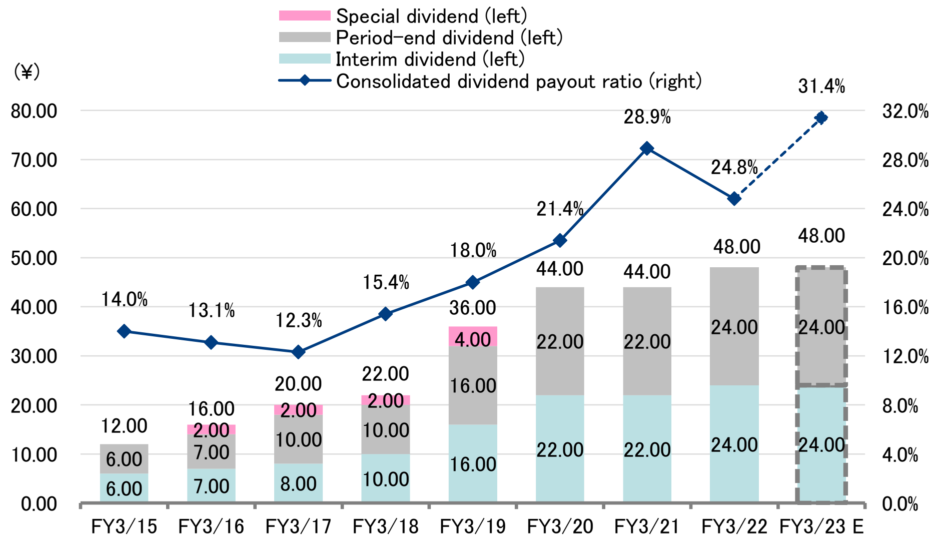
On the other hand, the Company is implementing measures to strengthen information security, including the management of personal information, which is its greatest corporate social responsibility. In November 2006, it acquired ISO/IEC 27001 certification, which is the international standard for information security management systems. In addition, it is working to build a strict management system by implementing the PDCA cycle.

Shareholder returns and share price valuation

Plans FY3/23 dividend of ¥48 per share, unchanged YoY

The Company's basic policy for shareholder return is to "stably and continuously pay dividends according to profits after comprehensively considering various factors, including internal reserves for active business development and maintaining a financial balance." In FY3/22, the Company increased the dividend per share by ¥4 YoY to ¥48 per share (interim ¥24, period-end ¥24, dividend payout ratio of 24.8%). The Company also plans to pay a dividend of ¥48 per share (interim ¥24, period-end ¥24, dividend payout ratio of 34.1%) in FY3/23 when it forecasts a fall in profits. Going forward, we can expect continuous dividends alongside the Company's profit growth, based on the relative stability of its business and its high level of profits.

Trends in dividend per share and consolidated dividend payout ratio



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

Also, as a measure for individual shareholders and to promote greater understanding of its Group's businesses, the Company has introduced a shareholder benefits program. Benefits include shareholders with over 1,000 shares receiving vouchers that can be used at four hot spring Japanese inns managed by the Group, while shareholders who have held shares for at least three years will also be able to select an item from a department store gift catalog with a value of ¥5,000.

Looking at how the share price has trended over the past few years, on March 23, 2021, it temporarily reached its highest price since listing of ¥1,325, as the Company has been highly evaluated for its strong results even during the COVID-19 pandemic. But subsequently, it declined gradually, and has been trending unchanged at a level slightly above ¥1,000. The current share price (closing price on July 4, 2022: ¥1,059) is firming up with PER (forecast) of 6.92 times and PBR (actual) at 0.59 times, while the dividend yield (forecast) has reached 4.53%. It is not possible to conduct a simple comparative analysis, as there are no similar listed companies with the same growth model. But starting with the fact that average PER (forecast) of the TSE Prime Market is 13.29 times and average PBR (actual) is 1.15 times, also in consideration of various factors, such as the strong demand for asset management-type condominiums in the Tokyo metropolitan area, future development potential, and the Company's comparatively robust business model, there is the sense that its current share price level is clearly undervalued. Therefore, as its industry leading company, it is considered that there is plenty of room for its share price to rise with asset management-type condominiums becoming further recognized as a long-term investment product. In particular, looking ahead to the end of the COVID-19 pandemic and the new normal, the stability (asset value) of rental housing in the Tokyo metropolitan area is being re-evaluated, so it would seem necessary to pay attention to whether this will cause the Company's share price to rise. It has been selected for inclusion in the JPX-Nikkei Mid and Small Cap Index* for five consecutive years since 2017.

* A stock price index calculated by the TSE and NIKKEI Inc. This index applies the concept of the JPX-Nikkei Index 400, which is an index comprised of listed companies highly attractive for investors, to mid and small cap equities by selecting companies that focus on capital efficiency and investor-oriented management, and its goal is to foster greater awareness to a wider range of companies. It is comprised of 200 stocks selected from the common stocks on the TSE Prime Market, Standard Market and Growth Market.

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