COMPANY RESEARCH AND ANALYSIS REPORT

FJ Next Holdings Co., Ltd.

8935

Tokyo Stock Exchange Prime Market

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Contents

Summary

Sales and profit growth exceeded the Company's forecast in FY3/25, with record-high net sales

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 is its own brand of asset management-type condominiums for single people 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. The Company's results temporarily worsened in FY3/21 under the impact of the COVID-19 pandemic, but they achieved a V-shaped recovery in FY3/22, and in FY3/24, net sales exceeded ¥100.0bn for the first time. In FY3/25, net sales also reached a record high, demonstrating that the Company is still in a growth phase.

2. Overview of FY3/25 results

In the FY3/25 results, net sales increased 12.0% year on year (YoY) to ¥112,429mn and operating income was up 0.6% to ¥9,488mn, with sales and profit exceeding forecasts. The number of condominium units sold in the Company's mainstay real estate development business increased to 3,249 units (up 479 units YoY) including pre-owned condominiums. This was a record-high level. The real estate management business also steadily expanded as the Company increased the number of managed rental units. On the other hand, the construction business posted lower sales due to a decline in the number of completed projects, but steadily built up the condominium construction orders it has now. Profit also surpassed the Company's forecast despite a rise in construction costs and higher ratio of pre-owned condominium sales weighing on the gross margin, underpinned by profit growth due to increased sales and expense cuts.

3. FY3/26 forecasts

For the FY3/26 results, the Company is forecasting higher sales and profits, with net sales to increase 11.2% YoY to ¥125,000mn and operating income to increase 1.2% to ¥9,600mn. Growth of the real estate development business and an increase in the number of managed rental units in the real estate management business will continue to drive the increase in net sales. The number of condominium units sold in the real estate development business is expected to be 3,500 units (up 251 units YoY). In addition, the Company apparently also expects significant growth in the construction business due to the clearing of the order backlog it built up in the previous fiscal year. However, it only forecasts modest profit growth because it conservatively looks for an increase in raw material prices in each segment, and envisions the operating margin declining to 7.7% (8.4% in the previous fiscal year).

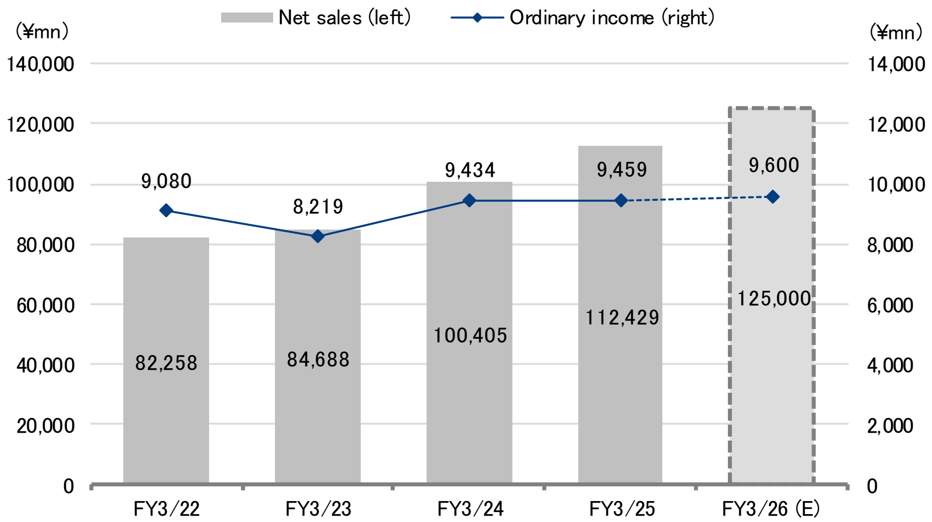
4. Growth strategy

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 returning, and providing opportunities for long-term asset management, mainly for general office workers. Despite the uncertain outlook for monetary policy and prices, rental income has been stable as a whole, which has confirmed that demand for asset management-type condominiums is firmly rooted. FISCO believes 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 300,000 people), crowdfunding efforts, and real estate DX. A focus of interest will be how the Company continues to evolve as it moves into a new stage, having already exceeded ¥100.0bn in net sales.

Key Points

- In FY3/25, sales and profit growth exceeded the forecast and net sales reached a record high
- The pipeline (real estate for sale in process) for future earnings growth also steadily increased
- For FY3/26, the Company also forecasts sales and profit growth, but slightly lower profit margins due to higher costs
- Going forward, the Company's 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

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 description

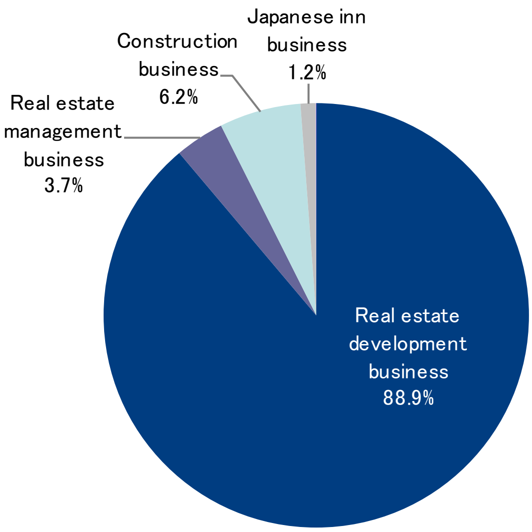
The Company's mainstay business is the development and sales of the Gala Condominium series, which are asset management-type condominiums located mainly in the center of Tokyo, and the Gala Residence series, which are condominiums for families. It also conducts a real estate management business, primarily 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 88.9% of net sales.

Business content by segments

Real estate development business	This business 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. and FJ Next Residencial Co., Ltd.
Real estate management business	This business 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. Resort management operations in the Izu area in Shizuoka prefecture are handled by Ito-Ippeki Management Services Co., Ltd., a consolidated subsidiary (second-tier subsidiary) of the Company.
Construction business	This business mainly conducts the design, construction, inspection, and renovation of condominiums and other buildings. It is conducted by the Company's consolidated subsidiary Resitec Corporation 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 (FY3/25)



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

2. History

Yukiharu Hida, the Company's current Chairman, has said, "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 operation system in order to maintain asset value over the long term," while the Company's 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 June 1991, the Company changed its company name to FJ Next Co., Ltd. In 1994, it launched sales of its own brand, Gala Condominium series, which are asset management-type condominiums, and its results have steadily expanded against the backdrop of growth in demand for rental properties and also 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.

When the Company was listed on the JASDAQ market of the Tokyo Stock Exchange (TSE) 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 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.) and since then has consistently maintained a top-level ranking. It was listed on the Second Section of the 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. New president Keisuke Hida took over in June 2024.

Characteristics of the Company

Leveraging its position in the industry, the Company's 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 the Company will 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 recurring revenue business.

Recently, the Company has expanded its handling of pre-owned condominiums. In FY3/25, the Company sold 2,551 pre-owned condominiums. In 2025, the Company marks its 45th anniversary, and with its large customer base, the Company believes after-sale follow up services are also important, so it makes a point of communicating with customers on a regular basis. By quickly identifying customer needs such as restructuring of portfolios, and offering appropriate advice, the Company singlehandedly undertakes the sale of properties that customers wish to sell. Appropriate management by Group companies after the sub lotting of condominiums developed by the Company maintains their asset value, and purchased pre-owned 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.

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. However, 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).

* (Cumulative) supply of Gala Residence series family-type condominiums has steadily increased to 3,040 units (up to FY3/25).

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 potential, 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

Many owners have been general office workers or public servants, 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, another 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 prolonged low interest rate policy resulting from monetary 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 returning. In the future also, it is forecast that the trends of an increase in the number of single-person households and the return 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 continue to increase.

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.

(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 facility 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 Prime Yokohama-Kannai won the National Association of Living Industries'*1 14th Excellent Project Award*2 in 2024. This is the Company's third award, following the 4th and 7th Excellent Project Awards in 2014 and 2017, respectively. 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. (Representative Yukiharu Hida has served as this organization's third chairman since June 2025.)

*2 With the aim to promote quality housing provision and development of living environments, etc., this award is bestowed upon selected 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 Prime Yokohama-Kannai (a total of 199 units)

Windbreak room

Exterior of building's southwest side

Entrance approach

Entrance hall

Source: The Company's press release

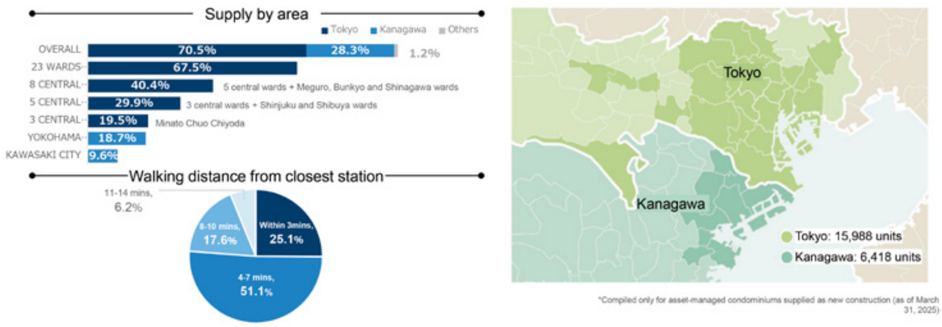
The Gala Residence series won the top award in the Quality and Price Balance category for the third consecutive year and an excellence award in the Customer Service Satisfaction category in the SUUMO AWARD (2025 Tokyo Metropolitan area)* customer satisfaction rankings as selected by new condominium buyers announced on June 12, 2025. This demonstrates that the Company's having supplied a cumulative total of over 25,000 units (as of March 31, 2025) and 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 sublot condominium sellers compiled by Recruit Co., Ltd. based on the views of new condominium buyers in the Tokyo metropolitan area.

(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. The Company 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 the Company's sales results (it has a record of providing a cumulative total of more than 25,000 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 94% of its properties are within 10 minutes of their nearest station.

Supply areas for Gala Condominium series



Source: The Company's supplementary results briefing materials

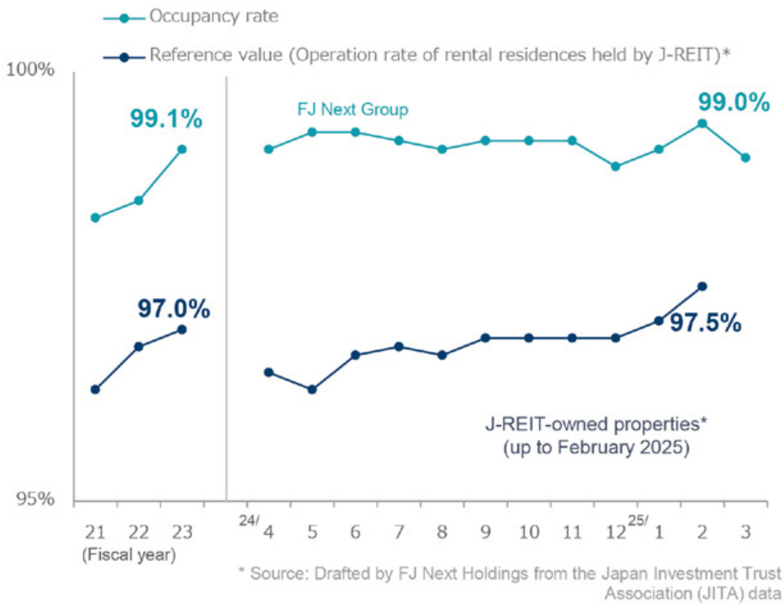
(3) High-level rental management expertise and extensive after-sales support

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 FY3/25, it had increased to 19,470 units. Meanwhile, the occupancy rates have trended stably at extremely high levels, 99.0%*1 at the end of March 2025, due to the Company's strict selection of good locations and its accumulation of management expertise. At the same time, the Company is increasing rents*2 through an appropriate management framework and efficient leasing activities. One could say that its balancing of that with high occupancy rates is another strength.

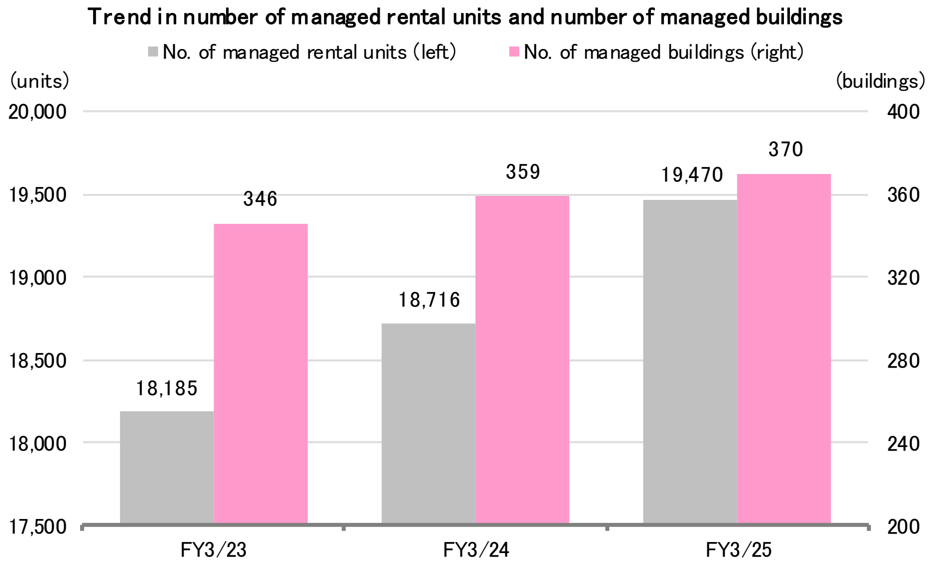
*1 For your reference, the occupancy rate for J-REIT-owned properties is 97.5% (as of February 28, 2025; Source: The Investment Trusts Association, Japan), so the Company's occupancy rate is constantly above this rate.

*2 The Company is realizing an increase in rents when concluding new contracts with tenants, and rents are on average ¥2,037 higher for new than old contracts according to its documents.

Occupancy rate trend for rental properties managed by the Group



Source: The Company's supplementary results briefing materials



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

The Company is also partnering with other companies to provide various added-value services for safer, more comfortable residential living. To date, this has been accomplished by introducing an electric vehicle charging service in August 2022 and an electricity plan called Gala Eleco Denki, also in August 2022. On May 27, 2024, the Company also announced the introduction of MOBAKAN, a condominium management IoT service to digitize the operation of the homeowners' association and promote the use of IT as part of a drive for real estate DX.

Examples of added-value services provided in partnership with other companies

		Partner	Service
Installation of monitoring system with sensors for flooding and earthquakes	October 2021	Security company	Permanent monitoring system for heavy rain and earthquakes. The system works by sensors detecting flooding and earthquakes, notifying the security company, which rushes to the scene. This enables a swift initial response, and helps prevent or reduce the impact of a natural disaster on the condominium.
Services provided using out-of-hours emergency platform	April 2022	FASTDoctor, Inc.	Provides free medical diagnosis during night time and holidays when hospital access is difficult
Installation of electric vehicle charging service	August 2022	Terra Motors Co., Ltd.	Installation of Terra Charge, an electric vehicle charging service for condominiums
Provision of Gala Eleco Denki electricity plan	August 2022	Mitsuuroko Green Energy Co., Ltd.	Switching to the Gala Eleco Denki plan reduces the cost of electricity used in condominium common areas
Installation of condominium management IoT service MOBAKAN	May 2024	Electric Works Company, Panasonic Corporation	Aims to reduce homeowners' workload by promoting IT and digitization of homeowner association operations and streamlining administration by going paperless

Source: Prepared by FISCO from the Company's press releases

(4) Attributes of owners and residents

Most owners are general office workers and public servants, and approximately 85% of new customers are 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 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.

Industry environment

Sales and profit growth exceeded the Company's forecast in FY3/25, with record-high net sales. Investment condominiums in the Tokyo metropolitan areas remain strong, 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. However, this decline bottomed out in 2010, and since then, 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 return of the population to the city center*. In addition to the continuing low interest rates and concerns about the amount of future pension income, a new need has emerged for measures to respond to inheritance tax (due to the reduction in the basic exemption, etc.). In recent years, 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, such as crowdfunding, have made investing easier, creating investment opportunities for younger generations and expanding the range of real estate investment.

* According to "Population, Demographics and Counts of Households Derived from Basic Resident Registration" released by the Ministry of Internal Affairs and Communications in July 2024, in net migration by prefecture (in-migrants from other prefecture less out-migrants to other prefectures (excluding foreigners)), the top four rankings were occupied by Tokyo and the three surrounding prefectures for the second consecutive year, so there has been no change in the fact that the Company's supply area holds the top rankings. In addition, according to the Company, in demographic projections provided by the Tokyo Metropolitan Government (Statistics Division, Bureau of General Affairs), while Japan's population is decreasing overall, the population of central Tokyo (23 wards) is expected to continue increasing until 2045, centering on single-person households, and thereafter it is expected to be flat or to decrease moderately.

2. The purchase and development environment

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 creditworthiness, financial strength, and abundant information capabilities, and has consistently emphasized profitability in purchasing activities since its establishment.

3. Competitive environment

The Company's industry peers are mostly specialists in investment condominiums, and the industry structure is made up of 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.*

* The Company placed first for the fifth consecutive year in the investment-type condominium supplier ranking in the Tokyo metropolitan area for 2023 (announced by Real Estate Economic Institute Co., Ltd. in August 2024).

Results trends

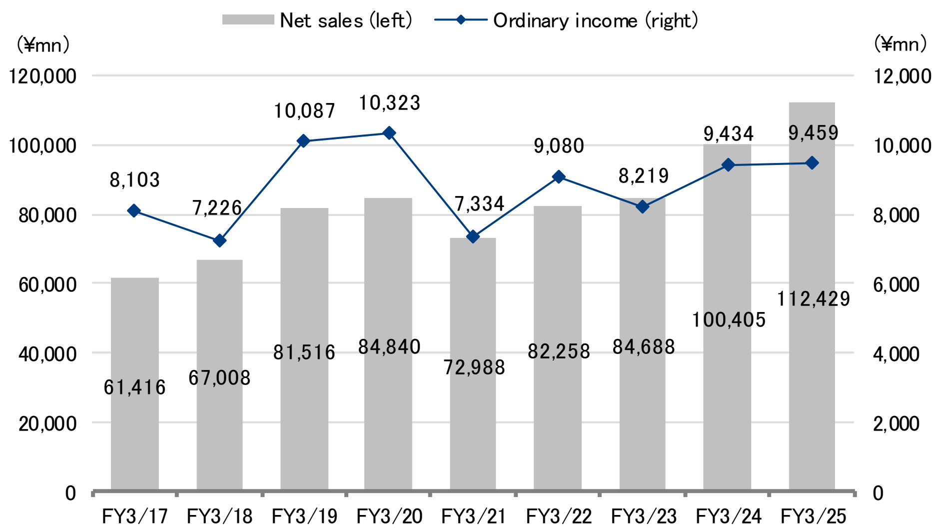
Brisk sales of asset management-type condominiums (including pre-owned condominiums)

1. Trends in past results

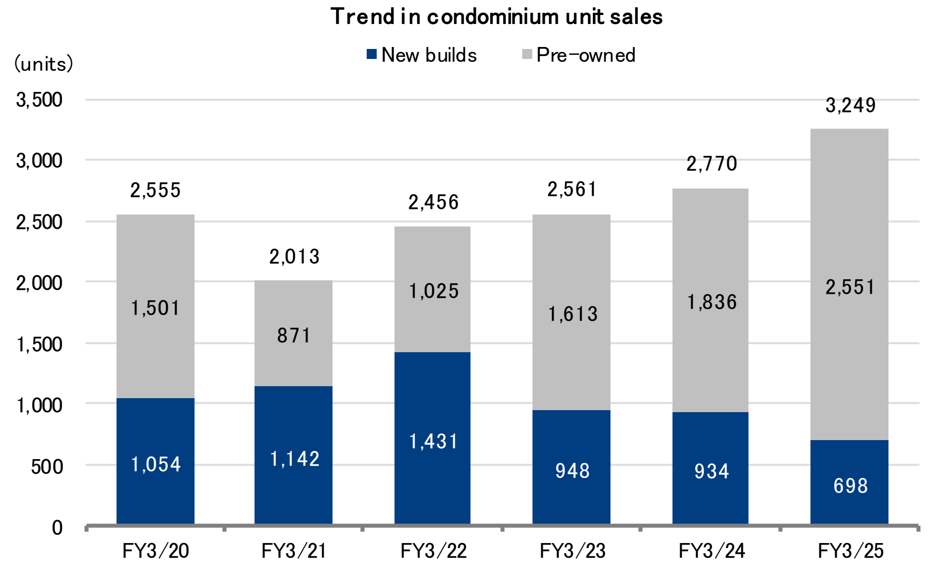
On looking back on past results, it can be said that they have trended steadily as a whole, supported by growth in rental demand and the demand for purchases of asset management-type condominiums in the Tokyo metropolitan area. The results hit bottom in FY3/09 due to the effects of the economic recession 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, its sales and profits have continued to increase significantly, and net sales achieved record highs for five consecutive years until FY3/20. Sales temporarily worsened in FY3/21 under the impact of the COVID-19 pandemic, but they achieved a V-shaped recovery in FY3/22, and in FY3/24, net sales exceeded ¥100.0bn for the first time. 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, but 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.

Trends in net sales and ordinary income



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



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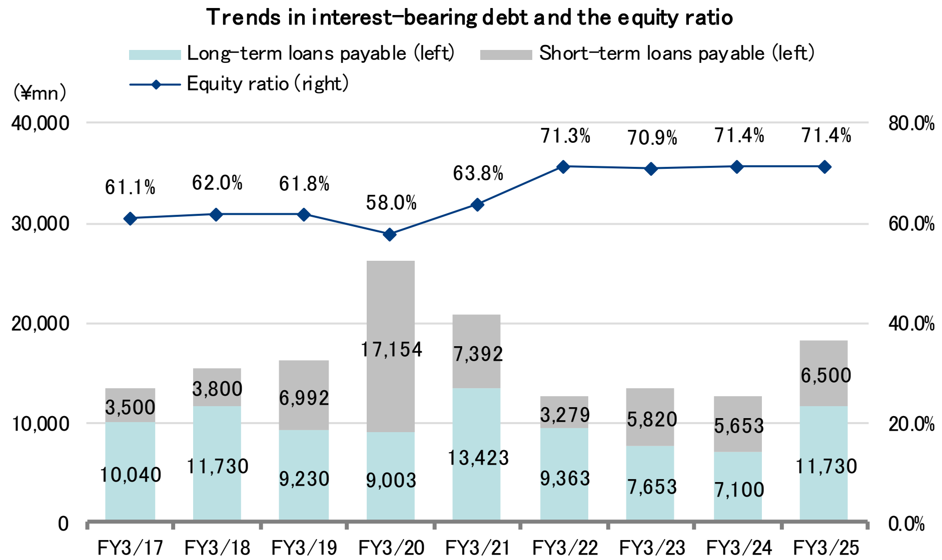


Note: Short-term loans payable include long-term loans payable scheduled to be repaid within one year.
Source: Prepared by FISCO from the Company's financial results

2. Overview of FY3/25 results

In the FY3/25 results, net sales improved 12.0% YoY to ¥112,429mn, operating income increased 0.6% to ¥9,488mn, ordinary income rose 0.3% to ¥9,459mn, and net income attributable to shareholders of parent company increased 0.5% to ¥6,483mn, with sales and profits exceeding the plan and net sales reaching a record high for the second consecutive year.

The real estate development business's growth contributed significantly to the increase in net sales. The Company sold 3,249 condominium units in the mainstay real estate development business (up 479 units YoY), a record high including pre-owned condominium sales. Demand was solid for asset management-type condominiums, and high average sales prices were sustained for both new and pre-owned condominiums*1. This was despite continued sharp growth in construction costs and land prices, while Japan's economy followed a gradual recovery path. Net sales exceeded the Company's forecast mainly because pre-owned condominium sales grew more than expected. This was supported by a thriving pre-owned condominium market, the Gala brand's strong popularity, and the Company's support system and speedy purchases and resales*2. The real estate management business also steadily expanded as the Company increased the number of managed rental units. On the other hand, the construction business posted lower sales due to a decline in the number of completed projects, but steadily built up the condominium construction orders it has now. In the Japanese inn business, sales rose as room rates increased, mainly for high-end Japanese inns.

*1 The average sales price for the Gala Condominium series held basically flat YoY at ¥2,873mn, while that for pre-owned condominiums increased 6.2% YoY to ¥2,710mn.

*2 The Company realizes speedy purchases and resales, with it taking an average of 27.8 days to sell pre-owned condominiums (industry average of 85.3 days) in FY3/25.

On the profit front, a rise in construction costs and higher ratio of pre-owned condominium sales depressed the gross margin, and the operating margin declined to 8.4% (9.4% in the previous fiscal year). However, profit growth exceeded plan, underpinned by higher earnings, mainly in the real estate management business, as well as cost curbs.

Regarding inventory assets (pipeline), the balance of real estate for sale (completed condominiums) and the balance of real estate for sale in process (development land and condominiums being developed) both increased from the end of the previous fiscal year. This indicates that the Company is continuing to make purchases with an emphasis on profitability despite purchase conditions being challenging, and has ensured that it has a sufficient pipeline. Notably, real estate for sale in process grew to ¥43,324mn, about 1.5 times the level at the end of the previous fiscal year, and approximately 50 projects are underway.

Looking at the Company's financial condition, total assets increased 10.7% from the end of the previous fiscal year to ¥105,477mn, owing to a significant increase in inventory assets. Meanwhile, shareholders' equity increased 7.2% to ¥72,922mn due to an increase in retained earnings, but the equity ratio declined slightly to 69.1% (71.4% at the end of the previous fiscal year). Also, interest-bearing debt increased 42.9% from the end of the previous fiscal year to ¥18,230mn accompanying the increase in inventory assets, and interest-bearing debt dependence* increased to 17.3% (13.4% at the end of the previous fiscal year). Nevertheless, financial soundness is not a concern, and a positive view of the financial balance is reasonable looking to future business expansion. Although ROE, which shows capital efficiency, decreased slightly to 9.2% (9.8% at the end of the previous fiscal year), the Company's financial condition is generally good.

* Calculated as interest-bearing debt/(total liabilities + net assets) × 100

Overview of FY3/25 results

(¥mn)

	FY3/24		FY3/25		Change		FY3/25		YoY	
	Results	% of sales	Results	% of sales	Change	Change (%)	Initial forecast	% of sales	Change amount	Change (%)
Net sales	100,405		112,429		12,024	12.0%	103,000		9,429	109.2%
Real estate development business	86,206	85.9%	99,901	88.9%	13,695	15.9%	-	-	-	-
Real estate management business	3,982	4.0%	4,214	3.7%	232	5.8%	-	-	-	-
Construction business	8,907	8.9%	6,976	6.2%	-1,931	-21.7%	-	-	-	-
Japanese inn business	1,260	1.3%	1,297	1.2%	37	2.9%	-	-	-	-
Cost of sales	80,231	79.9%	91,785	81.6%	11,554	14.4%	-	-	-	-
Gross profit	20,174	20.1%	20,644	18.4%	470	2.3%	-	-	-	-
SG&A expenses	10,742	10.7%	11,155	9.9%	413	3.8%	-	-	-	-
Operating income	9,431	9.4%	9,488	8.4%	57	0.6%	7,500	7.3%	1,988	126.5%
Real estate development business	7,930	9.2%	7,959	8.0%	29	0.4%	-	-	-	-
Real estate management business	1,087	27.3%	1,201	28.5%	114	10.5%	-	-	-	-
Construction business	380	4.3%	291	4.2%	-89	-23.4%	-	-	-	-
Japanese inn business	3	0.2%	12	0.9%	9	300.0%	-	-	-	-
Ordinary income	9,434	9.4%	9,459	8.4%	25	0.3%	7,500	7.3%	1,959	126.1%
Net income attributable to shareholders of parent company	6,453	6.4%	6,483	5.8%	30	0.5%	5,000	4.9%	1,483	129.7%
Condominium unit sales (unit)	2,770		3,249		479	17.3%	2,900		349	112.0%
Gala Condominium series	603		516		-87	-14.4%	-	-	-	-
Gala Residence series	331		182		-149	-45.0%	-	-	-	-
Pre-owned condominiums	1,836		2,551		715	38.9%	-	-	-	-
Balance of inventory assets	40,650		59,738		19,088	47.0%				
Real estate for sale	12,491		16,414		3,923	31.4%				
Real estate for sale in process	28,159		43,324		15,165	53.9%				
Total assets	95,281		105,477		10,196	10.7%				
Shareholders' equity	68,031		72,922		4,891	7.2%				
Equity ratio	71.4%		69.1%		-2.3%	-				
Interest-bearing debt	12,753		18,230		5,477	42.9%				
ROE	9.8%		9.2%		-0.6%	-				

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

FY3/26 forecasts

(¥mn)

	FY3/25		FY3/26		YoY	
	Results	% of sales	Forecast	% of sales	Change amount	Change (%)
Net sales	112,429		125,000		12,571	11.2%
Operating income	9,488	8.4%	9,600	7.7%	112	1.2%
Ordinary income	9,459	8.4%	9,600	7.7%	141	1.5%
Net income attributable to shareholders of parent company	6,483	5.8%	6,600	5.3%	117	1.8%

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

FISCO believes the Company's net sales forecast is well within reach, although impact from things like surging raw material prices and changes in the financial environment require attention. This is because rental demand is solid in the Tokyo metropolitan area, demand for purchases including of pre-owned condominiums is firmly rooted, the Company has significantly built up its pipeline, and the construction business has secured an adequate order backlog. In addition, the Company forecasts gradual profit growth but we think it conservatively factors in negatives such as higher raw material costs. Therefore, the possibility of earnings exceeding the Company's forecasts due to stronger-than-expected sales of pre-owned condominiums as in the previous fiscal year also requires attention. Our focus remains on the status of the pipeline for earnings growth from FY3/26 onward, as well as initiatives with an eye to the future, including business alliances with other companies.

Growth strategy

Also working to create new investment opportunities through 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, the Company is creating a database of prospective customers who have expressed an interest in its products (potential owners), and it is focusing its efforts on 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, which regularly provides potential customers with information by email and other means. The Company holds monthly seminars on themes tailored to various customer needs, from beginner investors to owners, through in-house events such as briefing sessions and individual consultation meetings. The Company is also conducting tie-up seminars (FJ College)*2 with companies that provide asset management services (including online seminars), and these activities have begun to produce results.

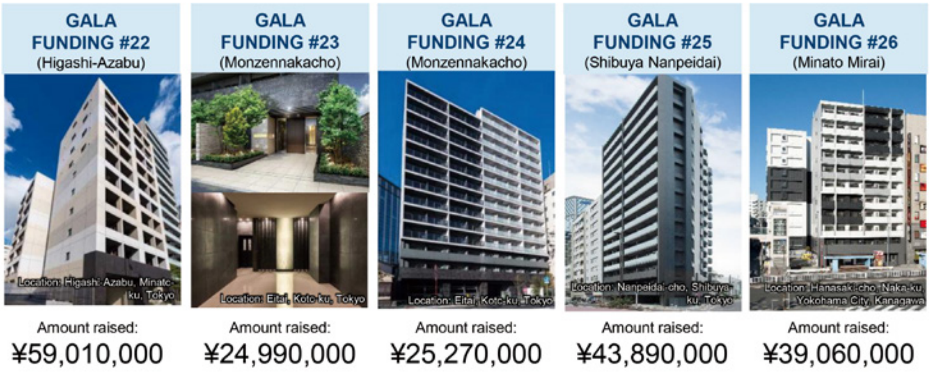
*1 The Company distributes content on asset management-type condominiums and a wide range of themes such as information on life plans, money, etc. (regularly providing content exclusively for members on the website and via an e-mail magazine), and it has more than 300,000 members and continues to grow.
*2 The Company says it has had more than 5,000 visitors (including from online seminars). Many of these visitors were young investors aiming to form assets for the future.

The Company also commenced crowdfunding* on May 10, 2022. Its first fund, GALA FUNDING #1 (Shirokane Takanawa), reached its goal within five minutes of its launch, demonstrating a high level of interest. The Company has since created 26 funds to date, and future developments are attracting attention as a method for creating new opportunities for investment in asset management-type condominiums.

* A service that raises funds from multiple investors through the Internet, and conducts real estate investment using such funds. The terms at the time of accepting applications for funds currently under management were set at ¥10,000 per investment unit, with an expected distribution rate of 3.0% after a six-month investment period.

Crowdfunding track record

Fund Information



Estimated distribution rate	Operation period	Minimum investment	Selection method	Investment structure
3%	6 months	¥10,000	Lottery format	Priority and subordinate structure (Priority 70%, Subordinate 30%)

Note: The above are the terms and conditions at the time of offer for the fund currently under management (before operation), and are not necessarily applied to the funds scheduled to be formed in the future.

Source: The Company's supplementary results briefing materials

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.

FISCO thinks it will be necessary to monitor the external environment from various angles, including the sharp increases in land purchase prices and construction costs and trends in prices and interest rates. However, 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. Moreover, the Company has a comparatively robust business model (such as a conservative purchasing policy and financial strength, and a focus on high-quality rental housing) and a recurring revenue business (for example, rental management operations and asset management operations, including for the properties of other companies). Given these factors, FISCO considers the Company to have high potential for sustainable growth. In particular, the significant potential and asset value of Tokyo and its surrounding areas, which continue to develop as an international city, have the power to raise the level of the entire area down to the smallest details, as they continually transform and renew themselves—and this is undoubtedly the biggest advantage for the Company. A key focus will be how the eight-year process of increasing net sales from ¥50.0bn to ¥100.0bn will evolve to the stage of net sales reaching ¥150.0bn and then ¥200.0bn. Compared to eight years ago, there is significantly more public awareness and appreciation of asset management-type condominiums, which is reflected in the Company's growth. However, there is a major shift in the operating environment, not only in terms of changing demographics, but also diversification of consumers' lifestyles and awareness of asset formation, and new trends such as real estate DX and crowdfunding. A key point is to what extent the Company can turn these changes to its advantage. To this end, we think that it must utilize content marketing (a membership base of around 300,000 people), which it has been working on so far, as well as crowdfunding, and also increase the value of its assets and pioneer marketing channels through various business alliances so it can keep its business model current. In addition, the Company's network with a wide range of owners, about 20,000 residents (mainly young people), and so forth is a valuable asset. There are expectations with regard to how it puts that to use in business plans going forward. Moreover, options such as expanding scale through M&A and business reforms probably warrant consideration. FISCO is also focusing on the strategic option of eventually bringing the Gala brand established in Tokyo and the surrounding area to major regional cities, and possibilities such as securing management resources through M&A look promising. In any case, we intend to monitor the direction of the Company's future evolution, timing of investments, and pace of growth.

Initiatives for sustainability and information security

Promoting sustainability as a leading company

As a leading company representing its industry, the Company is actively conducting corporate social responsibility (CSR) activities and environmental measures. As one of its initiatives, it recognizes climate change as a management issue that has an impact on business continuity, and is disclosing information and conducting scenario analysis based on the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations. 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), water-saving toilets, and electric vehicle charging services. 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, it is actively sponsoring* various environmental conservation activities.

* Support of environmental conservation activities in Akagi Nature Park (Shibukawa City, Gunma Prefecture), participation in BRING UNIFORM (promoting recycling of uniforms worn by staff engaged in the Company's condominium management operations to reduce CO_2 emissions), endorsement of the Deco-Katsu (decarbonization activities) campaign to prevent global warming, support of tree-planting activities, etc.

The Company is also implementing measures related to human capital. This includes promoting women's advancement alongside creating a comfortable working environment as part of initiatives targeting diversity (supporting workers in taking childcare leave regardless of their gender, introduction of a shortened work hours system, etc.), employee health and safety activities, and extension of the mandatory retirement age from 60 to 65.

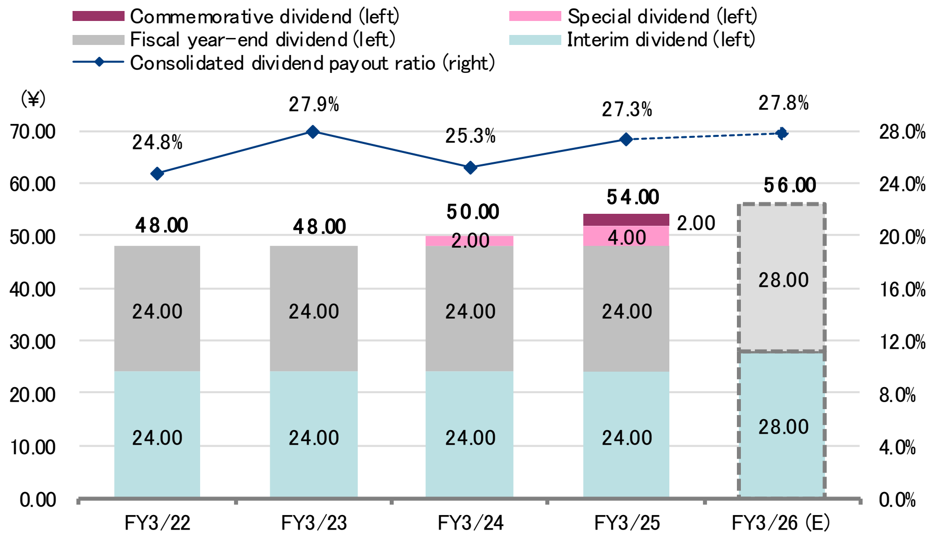
The Company is implementing measures to strengthen information security, including the management of personal information, which is its greatest corporate social responsibility. In November 2006, it acquired ISO/IEC 27001 certification, which is the international standard for information security management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

Shareholder returns and share price valuation

In FY3/26, plans annual dividend increase of ¥2 YoY, increase of ¥8 compared to the ordinary dividend

The Company's basic shareholder returns policy is to stably and continuously pay dividends according to profits, after comprehensively considering various factors, including internal reserves for active business development and maintaining capital efficiency. It implements progressive dividend policy, increasing dividends in line with medium- to long-term profit growth. In FY3/25, the Company paid a dividend of ¥54 per share (interim ¥24, fiscal year-end ¥30), a ¥4 increase YoY due to the payment of a special dividend of ¥4 since earnings exceeded plan and an anniversary dividend of ¥2 (20th anniversary of listing). The dividend payout ratio was 27.3%. For FY3/26, the Company plans to pay a dividend of ¥56 per share (interim ¥28, fiscal year-end ¥28), an increase of ¥2 YoY and ¥8 compared with the ordinary dividend, with a projected dividend payout ratio of 27.8%. Going forward, continuous dividends in line with profit growth are expected based on the Company's relatively stable business characteristics and high profit levels.

Trends in dividend per share and consolidated dividend payout ratio



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

Also, as a measure for individual shareholders and to promote greater understanding of its Group businesses, the Company has introduced a shareholder benefits program. Benefits include shareholders with over 1,000 shares as of March 31 of each year receiving vouchers (worth up to ¥60,000) 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, after reaching a record high of ¥1,325 on March 23, 2021, in recognition of strong earnings even during the COVID-19 pandemic, it remained sluggish for a while at levels above ¥1,000, but hit a new record high of ¥1,425 on March 29, 2024, mainly reflecting strong earnings at that time. However, the share price has subsequently been in a lull. The current share price (closing price on July 1, 2025: ¥1,156) is at a PER (forecast) of 5.73 times and PBR (actual) of 0.52 times, with the dividend yield (forecast) at 4.84%.

While a simple comparative analysis is not possible since there are no similar listed companies with the same growth model, the Company's current share price level still seems undervalued, given the TSE Prime Market average PER (forecast) of 15.56 times, PBR (actual) of 1.37 times, and dividend yield (forecast) of 2.65% on the same day, as well as factors such as firmly rooted demand for asset management-type condominiums in the Tokyo metropolitan area, future development potential, and the Company's relatively robust business model. Therefore, we believe there is ample potential for further revision of the Company's share price valuations as a leading company in the industry as interest grows in asset management-type condominiums as a long-term investment product.

Disclaimer

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