COMPANY RESEARCH AND ANALYSIS REPORT

INTELLEX Co., Ltd.

8940

Tokyo Stock Exchange Prime Market

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Summary

Rising electricity bills prompting ECOCUBE sales growth

INTELLEX Co., Ltd. <8940> (hereafter referred to as "the Company") is a pioneer and the largest company in its industry, specializing in the renovation and sale of pre-owned condominiums. To date, the Company has sold more than 25,000 units. In addition, since FY5/16 it has diversified and stabilized its portfolio through the launch of its Asset Sharing (sales of small-lot real estate) and Leaseback Businesses. In 2021, the Company started selling its energy-saving renovation product, ECOCUBE, and unveiled its strategy to grow while contributing to the reduction of carbon emissions in society.

1. 1H FY5/23 Results Overview

During the first half of FY5/23 (June to November 2022), the Company achieved a 4.9% year on year (YoY) increase in net sales, totaling ¥17,927mn, although it incurred an ordinary loss of ¥13mn, compared to the ordinary profit of ¥400mn in the previous fiscal year. While Solutions Business sales fell by 49.8% YoY, due to a delay in property sales timing, the Renovation Business saw an 18.9% increase in sales due to both a rise in the number of sales and average sales price. However, a decline in gross profit margin and higher expenses related to new business fields and branding led to a decrease in profit. The Company has been actively acquiring properties to expand ECOCUBE, and as of the end of 1H, it had accumulated a balance of real estate properties for sale of ¥25,152mn, a YoY increase of ¥5,382mn. The Renovation Business is expected to continue to grow, driving further sales.

2. FY5/23 Outlook

The forecast for FY5/23 consolidated results remains unchanged, with net sales expected to increase 17.4% YoY to ¥42,417mn, while ordinary profit is projected to decline 43.4% to ¥601mn. There is however a possibility that net sales could exceed the forecast due to the faster-than expected rise in the number of renovated condominiums and average price, as well as multiple sales of income property buildings scheduled for 2H. While profits are expected to stay on track due to factors such as the impact of rising prices for construction materials, the increased expenses for promoting ECOCUBE, upfront investment expenses for FLIE - a direct sales site for ECOCUBE and pre-owned condominiums – are expected to decrease profits by about ¥700mn to the previous period. The Company plans to expand the range of properties on FLIE from the current Tokyo metropolitan area to cover the entire country. Furthermore, TV ads for ECOCUBE started airing in the Tokyo metropolitan area at the end of December 2022, and the Company is actively promoting the product through transport ads and online videos to raise awareness. The Company believes ECOCUBE will boost sales because it offers significant reductions in electricity bills – a key benefit at a time when rising electricity bills are becoming a burden on household budgets. ECOCUBE achieves these reductions by installing optimum insulation, highly efficient air conditioning and a high-performance ventilation system based on heat calculations. The Company aims to develop ECOCUBE into a strategic product that provides a comfortable lifestyle and healthy living environment, through franchises, spreading its popularity and becoming the driving force behind its future performance.

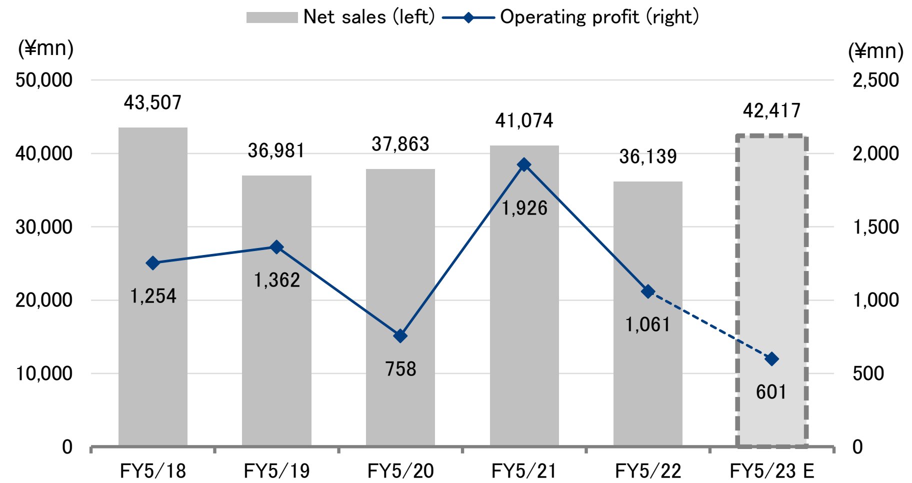
3. Medium-term Management Plan Overview

In July 2022, the Company released its three-year medium-term management plan which aims to reduce CO2 and improve the resident's quality of life through renovations. By FY5/25, the final year of the plan, the Company targets net sales of ¥59.1bn and ordinary profit of ¥2.3bn. In FY5/23, the first year of the plan, the Company expects increases but decreased profits due to upfront investments. The Company plans for ECOCUBE to comprise approximately 50% of its sales target of 1,603 units of renovated condominium units in FY5/25. Despite sluggish performance in the renovated condominium market in recent years due to fierce competition, the introduction of ECOCUBE presents an opportunity to differentiate the Company from competitors and achieve resumed growth. While ECOCUBE is sold at a 10% higher price than existing products, it is eligible for energy-saving home loan tax breaks and backed by rising electricity bills from 2022 onward, which increases the likelihood of sales growth.

Key Points

- The sales and purchase numbers of renovated condominium are increasing YoY.
- Despite a decrease in profit due to increased upfront investment expenses, the operating profit for FY5/23 is forecast to be in line with the initial plan.
- The company plans to expand sales of ECOCUBE and nurture its direct sales platform FLIE, with the aim of shifting profits to a high-growth stage from FY5/24 onward.

Results trends



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

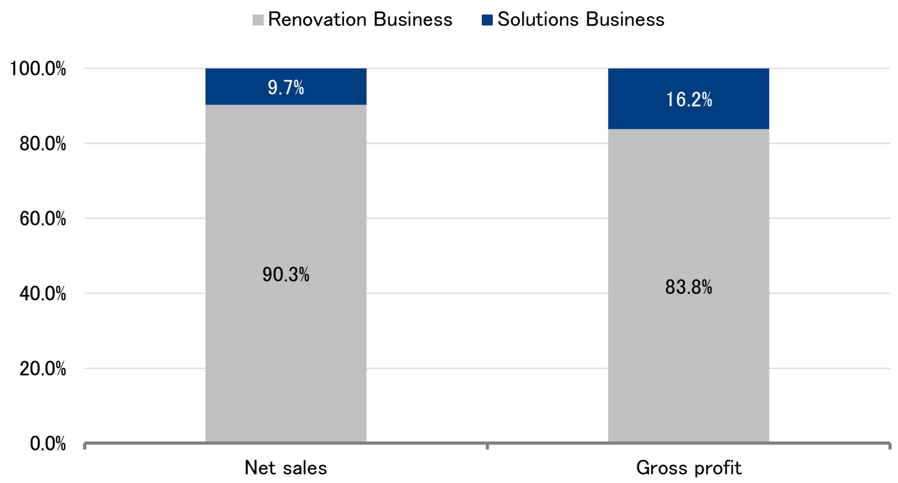
Business Overview

The Company is focusing on developing its Solutions Business, which includes the Leaseback Business and Asset Sharing Business, in addition to the Renovation Business

1. Business Segments Description

The Company operates two business segments: the Renovation Business, which involves purchasing, renovating and reselling individual pre-owned condominium units, and the Solutions Business, which comprises various services such as development, sales, leasing, management, brokerage, etc. In the first half of FY5/23, the Renovation Business Field accounted for 90.3% of net sales and 83.8% of gross profit.

Percentage of results by business segment (1H FY5/23)



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

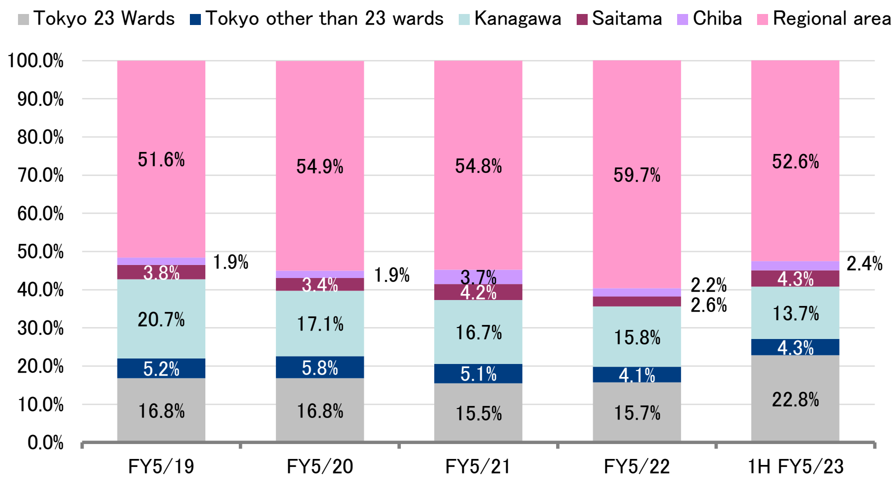
(1) Renovation Business Field

The Renovation Business involves resale, leasing, and brokerage of renovated condominiums and detached housing, as well as interior renovation business, as well as the FLIE platform for real estate transactions. Renovated condominium sales account for over 90% of segment sales.

The subsidiary INTELLEX Space Plan Co., Ltd. creates renovation plans based on real estate broker information and performs the interior renovations after which the properties are sold through real estate brokers or direct sales. To ensure profitability, the Company sets a target project period of approximately 120 days from purchase to sale, and sets a gross margin of 12 to 13% as the appropriate level. If the period exceeds this timeframe, the Company's policy is to adjust the sales price and complete the sale early, as a longer stock retention period poses a higher risk in declining profitability. The Company also contracts interior renovations to partner companies.

The Company started its sales in the metropolitan Tokyo area, and has gradually expanded to major regional cities (Sapporo, Sendai, Nagoya, Kyoto, Osaka, Hiroshima, and Fukuoka) since 2013. In the Tokyo area, there is an increase in companies entering the market, including major real estate sales companies, which has led to intense competition. However, outside of the metropolitan area, there are still only a few companies involved in renovating condominiums, indicating the steady development of this market. Since FY5/19, over 50% of the number of units has come from outside the metropolitan area. Given that half of the country's condominium stock is located in the metropolitan Tokyo area, the Company deems a sales ratio that distributes sales equally between the metropolitan Tokyo area and other regions as an appropriate level. The Tokyo 23 wards area accounted for a 22.8% share of the number of units sold in 1H FY5/23, surpassing 20% for the first time in eight years. This was primarily due to an increase in sales of ECOCUBE, a strategic product.

Percentages of units sold by area



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

The Company offers renovation condominium interior services to both general individuals and other companies in the same industry that sell renovated condominiums, which accounted for about 5% of total sales in 1H FY5/23. Due to the need for expertise in condominium interior renovation work for each property, the Company receives numerous inquiries from major real estate companies and other industry players. Recently, there has been an increase in cases of REIT management companies placing orders with the Company for renovations to increase the value of their portfolio properties.

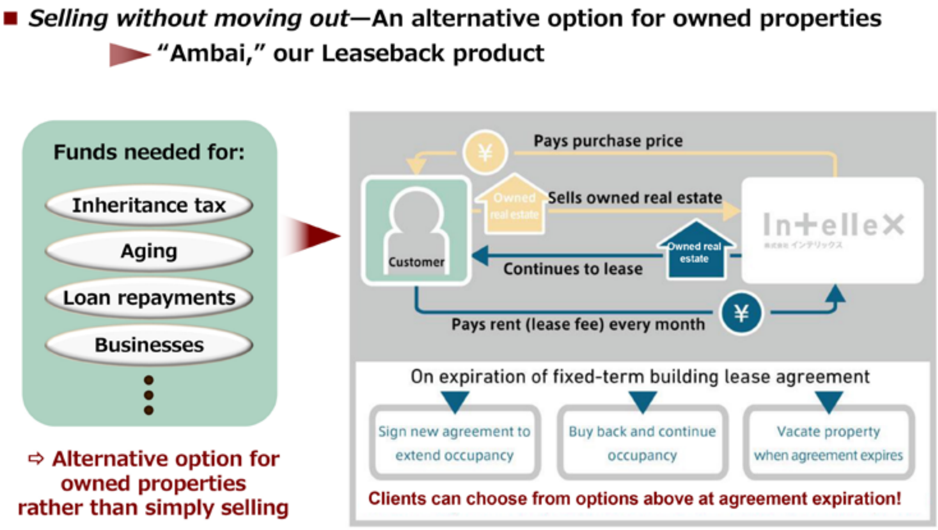
(2) Solutions Business Field

The Solutions Business field comprises various services such as development, sales, leasing, management, brokerage, etc. for revenue-generating real estate such as buildings and land. It also includes the development and sales of newly built condominiums, leaseback, asset sharing, and hotel and accommodation businesses.

a) Leaseback Business

The Leaseback Business is a service that the Company began providing in FY5/17. In this service, the Company purchases owned real estate from the users while simultaneously concluding a fixed-period property rental contract (2 years) with them and collecting the rent. The contract allows users to choose whether to re-sign and continue to live in the home, to leave it, or to purchase the owned real estate as their contract period approaches its end. The market for this service has grown in recent years, as it allows homeowners to sell their property and continue to live in it, enabling them to raise funds for purposes such as inheritance tax, retirement, or loan repayment.

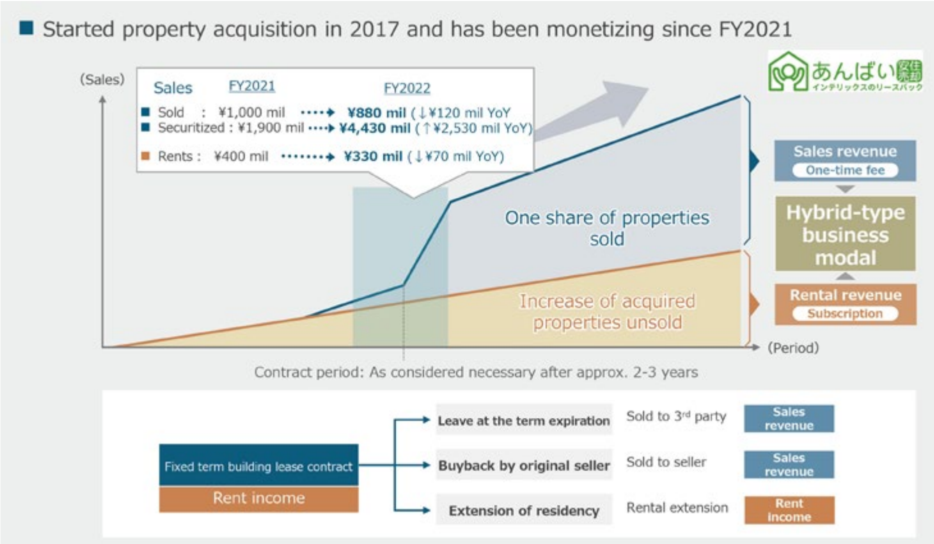
Leaseback Business Framework



Source: The Company's results briefing materials

The Company's revenue is derived from contract fees at the time of property acquisition, rental income, and sales income upon property sale. On the other hand, costs are incurred upon acquisition, including acquisition tax and registration costs, and depreciation costs. As a result, the business model incurs costs over a fixed period after acquisition, but time profit margins increase when the property is sold due to the progress of depreciation. Although individual unit sales are possible, the Company increases funding efficiency by bundling multiple units and selling them to a real estate fund as real estate trust beneficiary rights.

Leaseback Business profit status



Source: The Company's results briefing materials

&Do Holdings Co., Ltd. <3457> was a pioneer in the industry, when it launched the leaseback business in 2013. Since then, more companies, including finance companies, have started participating in this business. Despite the competition, the Company intends to expand this business by increasing purchase and sales routes, as well as building stronger partnerships with major real estate companies such as CENTURY 21 REAL ESTATE OF JAPAN LTD.<8898>).

b) Asset Sharing Business

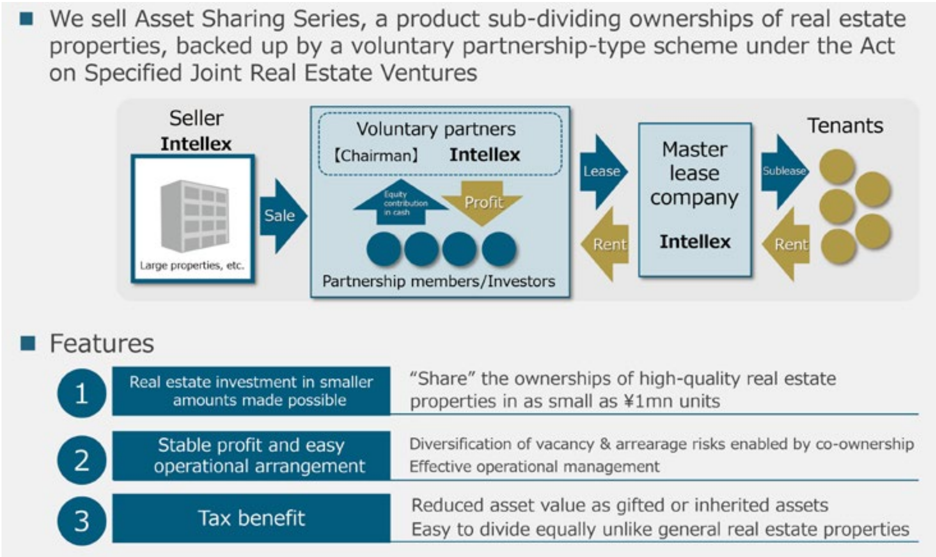
The Asset Sharing Business is a business selling small-lot real estate products using the "voluntary partnership-type" scheme specified in the Act on Specified Joint Real Estate Ventures. These products have several features, such as enabling the acquisition of high-quality real estate properties, newly built or pre-owned, through joint ownership on units of ¥1mn per lot, dispersing the risk of vacancies and non-payment of rent, being expected to stably generate earnings, and keeping the asset value down as an inheritance or gifted asset.

The Group's subsidiary INTELLEX Property Co., Ltd. mainly manages the real estate properties. The Group can obtain flow income from small-lot sales as well as stock (recurring) income from voluntary partnership chairperson fees and property management fees. Conversely, the Company aims to target an expected distribution yield* of at least 3% for its products as investors' expected rate of return.

* Annual income from deducting actual costs generated (administrative expenses, etc.) from rental income ÷ investment amount

This business sector includes other companies, such as Aoyama Zaisan Networks Co., Ltd. <8929> and Financial Products Group Co., Ltd.<7148>, which have launched their businesses before the Company. But the Company has its own strengths, including its ability to utilize its existing network and expertise as a real estate company, enabling it to develop a wide range of products, of both newly built and pre-owned properties and catering to both residential and commercial needs. In terms of sales, the Company employs various channels, such as conducting seminars, utilizing its own website, and collaborating with professionals, such as tax accountants, financial institutions, and other organizations.

Asset Sharing Business Framework (sales of real estate small-lot products)



Source: The Company's results briefing materials

The Company's Strengths lie in its internally developed renovation expertise and a rapid purchasing system

2. Company's Strengths

The Company has two strengths in the Renovation Business field. The first strength is its ability to purchase profitable properties within a short time frame. The company receives about 2,500 to 3,000 cases of property sales information from real estate brokerage companies every month. The staff in charge verifies the conditions on site within 1 or 2 days and makes a final purchase decision. In contrast, other major real estate companies usually take around a week to make a decision. Therefore, the Company is able to acquire excellent properties ahead of its competitors. However, due to increasing competition in the metropolitan Tokyo area, it has become more challenging to purchase properties at reasonable prices. The Company is starting to strengthen its direct purchase system from sellers.

The second strength of the Company lies in its expertise in renovating individual condominium units. Unlike detached houses, renovations of individual condominium units require careful consideration for the adjacent units, meaning that the renovation must be conducted with minimal noise and vibrations within a short period. Leveraging its extensive experience renovating many properties to date, the Company has developed unique renovation methods specifically designed for condominiums. Its in-house methods include conducting quiet renovations to minimize noise when drilling holes and fastening screws, as well as utilizing subflooring and sheathing materials and streamlining infrastructure, such as header pipes that collect water supply in one location. By utilizing these specific condominium renovation methods, the Company ensures consistent quality of renovation, as well as efficiency in subsequent maintenance work. Moreover, as the living infrastructure such as water and electrical systems are shared with the other condominium units, it is crucial to handle these elements with care when conducting construction work that could potentially impact them. The Company has therefore prepared a comprehensive renovation manual, and is dedicated to maintaining and improving the quality of services by its partner companies who carry out the renovation work. Its innovative renovation technologies have received high praise within the industry, resulting in many renovation consignment projects from major real estate companies.

Condominium renovation methods

Quiet renovation

Header pipes

Source: reprinted from the Company's website

Results Trends

On-target Operating profit for 1H FY5/23

1. 1H FY5/23 Results Overview

The consolidated results for the first half of FY5/23 showed an increase in net sales by 4.9% YoY to ¥17,927mn, but a decrease in operating profit by 66.3% to ¥189mn, resulting in an ordinary loss of ¥13mn compared to a profit of ¥4.00mn in the previous fiscal year, and a loss attributable to the owners of the parent of ¥30mn compared to a profit of ¥242mn in the previous fiscal year. The increase in sales and decrease in profits were due to the postponement of the sale of income property buildings until 2H. However, operating profit was secured in line with the forecast due to lower-than-expected SG&A expenses.

Consolidated results for 1H FY5/23

(¥mn)

	1H FY5/22		1H FY5/23				
	Results	% of sales	Company forecast	Results	% of sales	YoY	vs. forecast
Net sales	17,089	-	19,247	17,927	-	4.9%	-6.9%
Gross profit	2,926	17.1%	3,128	2,656	14.8%	-9.2%	-15.1%
SG&A expenses	2,365	13.8%	2,941	2,467	13.8%	4.3%	-16.1%
Operating profit	560	3.3%	187	189	1.1%	-66.3%	1.1%
Ordinary profit	400	2.3%	27	-13	-0.1%	-	-
Profit attributable to owners of parent	242	1.4%	22	-30	-0.2%	-	-
Renovated condominium sales							
No. of sales (units)	569	-	-	584	-	2.6%	-
Average sales price (¥10,000)	2,266	-	-	2,609	-	15.1%	-

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

Despite lower revenues in the Solutions Business field, net sales increased primarily driven by the Renovation Business field, which saw a YoY increase of 18.9%. This was due to an increase in the number of renovated condominium units sold (up 2.6% YoY to 584 units) and an increase in the average sales amount (up 15.1% to ¥2,609mn). The rise in sales prices can be attributed to an increase in the share of the Tokyo 23 wards area in the number of units sold, an increase in sales of ECOCUBE, and the incorporation of the rising cost of construction materials in sales prices.

The company's gross profit decreased by 9.2% YoY to ¥2,656mn. Although the Renovation Business field saw an increase in gross profit by 2.0% to ¥2,226mn, the drop in the Solutions Business field was substantial, as it decreased by 42.2% to ¥430mn. The gross profit margin declined from 17.1% a year ago to 14.8%, primarily due to a lower profit margin for renovated condominiums. The profit margin declined due to increasing prices of construction materials and increased sales of ECOCUBE, which has a high material cost rate.

The Company managed to maintain a steady SG&A expense rate of 13.8%, equivalent to the previous year, despite a 4.3% YoY increase in investment costs in new business fields. Non-operating income declined by ¥42mn, primarily due to an increase in interest expenses (of ¥55mn) from higher interest-bearing debt and an increase in commission expenses (of ¥33mn) associated with financing that included sustainability-linked syndicated loans to contribute to the achievement of the UN's Sustainable Development Goals (SDGs).

YoY increase in sales and purchases of renovated condominiums.

2. Trends by Business Segment

(1) Renovation Business Field

The Renovation Business Field saw an 18.9% YoY increase in net sales to ¥16,184mn and gross profit in 2.0% to ¥2,226mn, while operating profit declined 28.3% to ¥487mn. Property sales rose by 18.8% to ¥15,178mn due to an increase in the number of renovated condominiums sold and an increase in sales prices, and rents also reversed by 4.2% to ¥78mn thanks to more rental properties on hand. Other income increased by 21.2% YoY to ¥927mn, with interior renovation work orders increasing by 19.3%

In terms of gross profit, these was a slight overall increase of 2.0%, even though property sales increased 1.2% to ¥2,071mn and the gross profit margin decreased from 16.0% to 13.6% from the previous year. The decline in profit margin can be attributed to increased prices of construction material, extended construction periods due to supply shortages, and higher sales of ECOCUBE. However, the gross profit per renovated condominium unit sold remained steady at approximately ¥3mn, a level equivalent to the previous year.

Renovation Business Field results

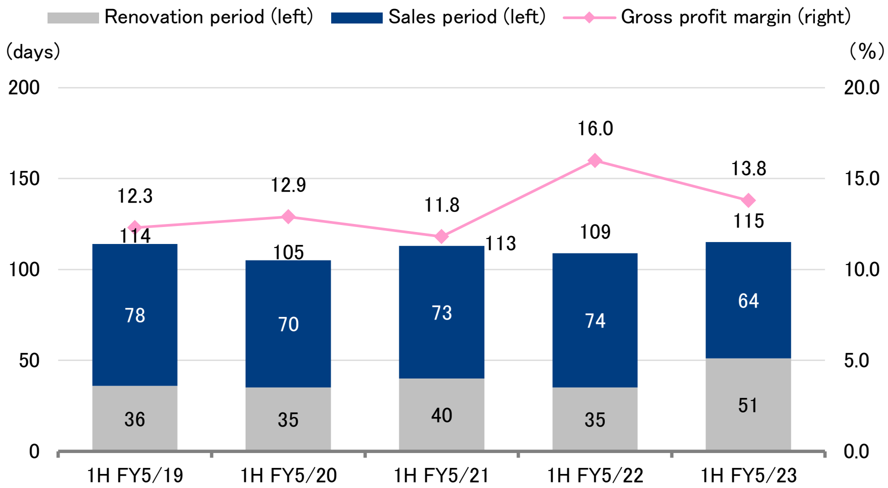
(¥mn)

	Net sales			Gross profit			Gross profit margin	
	1H FY5/22	1H FY5/23	YoY	1H FY5/22	1H FY5/23	YoY	1H FY5/22	1H FY5/23
Property sales	12,773	15,178	18.8%	2,047	2,071	1.2%	16.0%	13.6%
Rents	75	78	4.2%	54	56	3.1%	72.2%	71.4%
Other income	765	927	21.2%	80	98	22.1%	10.6%	10.6%
Total	13,613	16,184	18.9%	2,182	2,226	2.0%	16.0%	13.8%

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

The project period for renovated condominiums increased by six days from the previous year to 115 days due to supply shortages and an increase in ECOCUBE renovations. Although the sales period decreased from 74 days to 64 days, the renovation period lengthened from 35 days to 51 days. As a result, the gross profit margin declined to 13.6%. However, considering that the gross profit margin was about 13% prior to the COVID-19 pandemic, it can be regarded as returning to an acceptable range.

Renovated condominium project period and gross profit margin



* The gross profit margin since 1H FY5/21 is for units sold in the Renovation Business
Source: Prepared by FISCO from the Company's results briefing materials

In the Renovation Business Field, the number of renovated condominium units sold increased by 2.6% YoY to 584, with the total amount increasing by 18.2% to ¥15,240mn, reversing a two-term trend. Despite delays in procuring housing equipment due to the semiconductor shortage and increased construction material costs, sales remained steady due to high demand, and sales were steady and passing off these costs in sales prices. There were delays procuring materials like housing equipment due to the semiconductor shortage while progress was made in passing off increased construction material costs in sales prices, but demand remained rampant, and sales were steady. Sales in the Tokyo metropolitan area increased by 17.9% to 277 units, while in areas outside Tokyo sales decreased by 8.1% to 307 units. Proactive purchasing activities of relatively high-priced properties that started the previous term to increase sales of ECOCUBE, paid off in the Tokyo 23 wards area in particular, with sales increasing significantly, by 47.8% to 133 units. However, units sold decreased in Nagoya, Fukuoka, and Hiroshima. Of the total units sold, 65 were ECOCUBE accounting for 11% of the total. While sales primarily centered on the Tokyo 23 wards area, a sales record is beginning to emerge in areas outside the Tokyo metropolitan area as well.

During the same period, the Company experienced an increase in the number of units purchased, which rose 6.9% YoY to 680 units, with the purchase amount also increasing by 28.5% to ¥12,200mn, marking a second consecutive term of increases. Looking at the breakdown by area, purchases in the Tokyo metropolitan area increased by 6.9% to 295 units, while areas outside the Tokyo metropolitan area saw purchases increase by 6.9% to 385 units. Notably, the Tokyo 23 wards area showed a significant increase of 38.0% to 149 units. In nearly all areas, the average purchase price increased, indicating that the Company has been proactive in its purchasing activities.

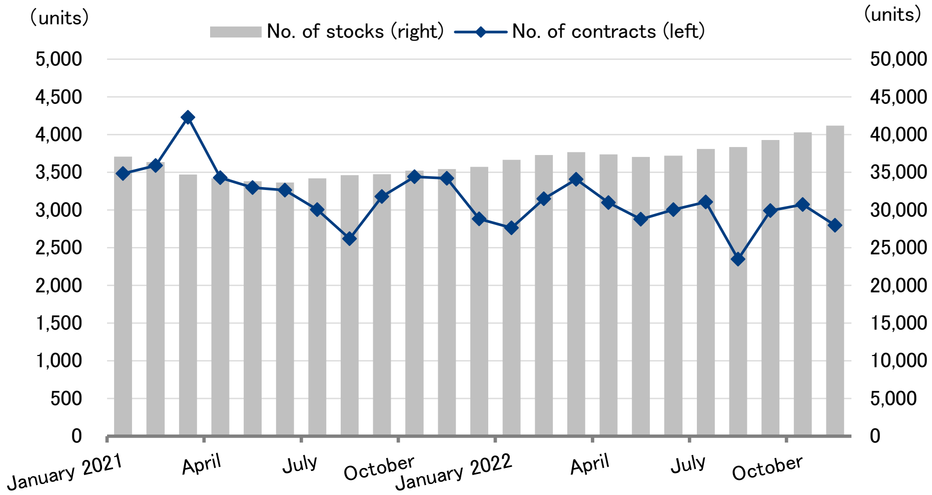
Number of units purchased and sold by area, the amount, and the average price

	No. of purchases				No. of sales			
	1H FY5/21	1H FY5/22	1H FY5/23	YoY	1H FY5/21	1H FY5/22	1H FY5/23	YoY
Metropolitan Tokyo area	245	276	295	6.9%	326	235	277	17.9%
Tokyo	114	139	169	21.6%	150	112	158	41.1%
Kanagawa	100	115	80	-30.4%	129	96	80	-16.7%
Saitama	23	12	27	125.0%	34	16	25	56.3%
Chiba	8	10	19	90.0%	13	11	14	27.3%
Regional area	312	360	385	6.9%	419	334	307	-8.1%
Sapporo	63	77	83	7.8%	70	55	65	18.2%
Sendai	39	48	52	8.3%	34	46	46	0.0%
Nagoya	58	44	42	-4.5%	78	51	39	-23.5%
Osaka	95	99	115	16.2%	142	93	100	7.5%
Hiroshima	15	15	26	73.3%	20	21	17	-19.0%
Fukuoka	42	77	67	-13.0%	75	68	40	-41.2%
Total	557	636	680	6.9%	745	569	584	2.6%
Total amount (¥mn)	7,500	9,500	12,200	28.5%	16,725	12,896	15,240	18.2%
Average price (¥mn)	13.5	14.9	17.9	20.1%	22.4	22.7	26.1	15.1%

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

During the period of June 2022 to November 2022, the pre-owned condominium industry in the Tokyo metropolitan area showed a decrease in the number of contract closings by 8.5% YoY to 17,312 units, while inventory as of November 2022 increased moderately to 41,000 units. The decline in the number of units sold was due to the strong sense of economic uncertainty and the trend of demand shifting to rental properties as sales prices increased. Demand for properties in popular areas of Tokyo's 23 wards remains high, but there are significant variations in demand across the cities outside the greater metropolitan Tokyo area. Despite these trends, the Company was able to recover some of its sales share in the Tokyo metropolitan area by engaging in proactive purchasing activities and making progress in sales of ECOCUBE. If ECOCUBE is established as a differentiated product in the market, the upward trend in units sold will likely continue as the Company increases its share. While inventory in the industry continues to rise, FISCO believes that excess inventory is not currently an issue, as the most recent peak in 2019 was at 48,000 units.

The number of used condominium contracts and the number of stocks in the metropolitan Tokyo area



Source: Prepared by FISCO based on Real Estate Information Network for East Japan data

(2) Solutions Business Field

In the Solutions Business Field, there was a decline in net sales, gross profit, and operating profit YoY. Specifically, net sales decreased by 49.8% YoY to ¥1,743mn, gross profit declined by 42.2% to ¥430mn, and operating profit dropped 51.4% to ¥147mn. A closer look at the sales reveals that property sales decreased by 63.8% to ¥1,046mn, rental income increased by 2.8% to ¥499mn, and other income, which primarily stems from the hotel and accommodations business, increased 109.6% to ¥197mn.

Solutions Business Field results

	Net sales			Gross profit			Gross profit margin	
	1H FY5/22	1H FY5/23	YoY	1H FY5/22	1H FY5/23	YoY	1H FY5/22	1H FY5/23
Property sales	2,895	1,046	-63.8%	529	141	-73.3%	18.3%	13.5%
Rents	485	499	2.8%	249	256	2.9%	51.3%	51.3%
Other income	94	197	109.6%	-34	32	-	-37.0%	16.4%
Total	3,475	1,743	-49.8%	744	430	-42.2%	21.4%	24.7%

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

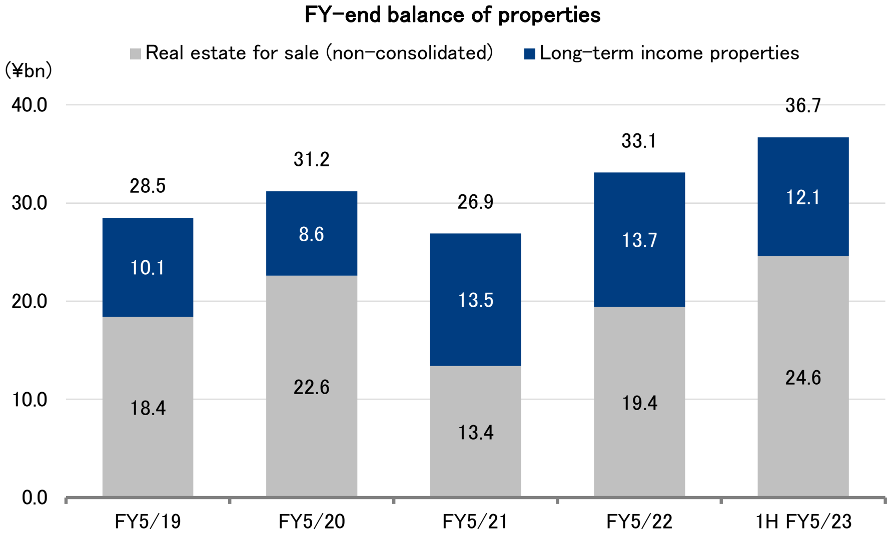
The decline in property sales was due to the absence of property securitization in the Leaseback Business, which was conducted in the first half of the previous year and amounted to ¥1,843mn* and was not conducted in 1H FY5/23. The Company acquired 72 leaseback properties at a cost of approximately ¥1.5bn, nearly the equivalent level of the previous year. The market has become more competitive with the entry of more companies, and the Company intends to acquire more properties while revising its promotion strategy. Other income increased significantly due to the recovery of hotel occupancy rates at LANDABOUT (Taito-ku, Tokyo), montan Hakata (Fukuoka City, Fukuoka Prefecture), and other properties. The Company currently owns these hotel facilities, but if the pandemic subsides and occupancy rates stabilize, it will consider selling them as Asset Sharing products.

* In August 2021, the Company transferred 88 leaseback properties to LLC Ambai LB No. 2 for ¥1,843mn.

Aggressive property purchases contribute to increase in property balance

3. Financial Conditions and Management Indicators

At the end of 1H FY5/23, total assets increased by ¥4,179mn to reach ¥45,112mn, compared to the end of FY5/22. The increase was primarily due to the rise in real estate for sale by ¥5,382mn, while cash and deposits decreased by ¥154mn in current assets. Regular properties and rental properties contributed to the increase in real estate for sale, rising by ¥3.2bn to ¥15.7bn and ¥2.0bn to ¥8.9bn respectively. In contrast, property, plant and equipment in non-current asset, declined by ¥1,475mn, mainly because ¥3.0bn of long-term income properties were transferred to current assets. Income real estate properties increased by ¥3.6bn to ¥36.7bn, marking the highest level in recent years, indicating the Company's intention to expand its business. FISCO views this positively.



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

The total liabilities of the Company increased by ¥4,280mn to ¥33,233mn at the end of the current period. Income taxes payable decreased by ¥208mn, whereas accounts payable-trade increased by ¥322mn and interest-bearing debt increased by ¥4,136mn. This increase in interest-bearing debt is mainly attributed to funds allocated for the acquisition of income real estate properties and investment in new business fields, such as ECOCUBE. The Company has received positive feedback on its SDGs-related initiatives, such as energy-saving renovations and promoting digital transformation in the real estate market. This has enabled it to successfully secure funds through sustainability-linked loans (SLL)* and syndicated loans syndicated loans to contribute to the achievement of the UN's Sustainable Development Goals (SDGs), raising a total of ¥3.3bn, a portion of which has already been utilized. The Company plans to use the remaining financing limit to fund business activities in the second half. The total net assets decreased ¥100mn to ¥11,878mn, reflecting the disposal of treasury stock, which increase by ¥48mn, while dividend payments of ¥112mn and a loss attributable to the owners of parent of ¥30mn contributed to the decline.

* Sustainability-linked loans are a type of loans that encourages borrowers to achieve certain targets that support sustainable economic activity. The terms of the loan change based on extent to which the borrower achieves its Sustainability Performance Targets (SPTs) in its SDGs/ESG strategy. In the most recent SLL, the Company has chosen the number of ECOCUBE specification renovated condominiums sold as KPI and set its SPTs as increasing the number of units sold.

When analyzing management indicators, it was found that the capital ratio of the Company fell from 29.2% at the end of FY5/22 to 26.3%, mainly due to the increase in interest-bearing debt. Additionally, the interest-bearing debt ratio increased from 220.4% to 257.2%. Although the Company's financial standing deteriorated to some extent due to the increase in interest-bearing debt, it plans to sell income real estate properties to generate profits while efficiently turning over funds. Recently, in December 2022, the Company raised funds through a ¥1.5bn syndicated green loan to make a contribution to decarbonization objectives, and it is possible that the level of interest-bearing debt may increase slightly by the end of the year. However, FISCO believes that this will improve over the medium to long term as the Company increases its earnings.

Consolidated balance sheet

(¥mn)

	FY5/20	FY5/21	FY5/22	1H FY5/23	Change
Current Assets	28,327	20,559	25,101	30,546	5,444
(Cash and Deposits)	4,947	6,215	4,428	4,274	-154
(Real estate for sale)	22,918	13,642	19,769	25,152	5,382
Non-current Assets	10,269	15,736	15,831	14,566	-1,265
Total Assets	38,596	36,296	40,932	45,112	4,179
Current Liabilities	17,698	15,610	18,775	21,978	3,203
Non-current Liabilities	10,262	9,098	10,178	11,254	1,076
Total Liabilities	27,961	24,709	28,953	33,233	4,280
(Interest-bearing Debt)	24,924	20,750	26,363	30,499	4,136
Total Net Assets	10,635	11,586	11,978	11,878	-100
(Security)					
Capital Ratio	27.5%	31.9%	29.2%	26.3%	-2.9pt
Interest-bearing Debt Ratio	234.7%	179.1%	220.4%	257.2%	36.7pt

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

Outlook

Initial plan to be met despite lower profit due to increased upfront investments in FY5/23

1. FY5/23 Results Outlook

The Company's outlook for FY5/23 consolidated results predicts a 17.4% YoY increase in net sales to ¥42,417mn, with operating profit, ordinary profit, and profit attributable to towners of parents expected to decrease by 31.8% to ¥930mn, 43.4% to ¥601mn, and 34.6% to ¥420mn respectively - unchanged from the initial forecast. Net sales are expected to increase to 17.3% to ¥30,776mn as the sales amount of renovated condominium units recovers, marking the first increase in two periods. However, the Company is projecting a decline due to plans to increase upfront investment in new business fields, resulting in an approximate ¥700mn increase from the previous period.

Outlook for FY5/23 results

(¥mn)

	FY5/22		FY5/23				
	Full fiscal year (result)	% of sales	1H (result)	2H (subtracted)	Full fiscal year (forecast)	% of sales	YoY
Net Sales	36,139	-	17,927	24,489	42,417	-	17.4%
(Renovation Business field)	27,816	77.0%	16,184	17,616	33,800	79.7%	21.5%
(Solutions Business field)	8,323	23.0%	1,743	6,857	8,600	20.3%	3.3%
Gross profit	6,109	16.9%	2,656	4,327	6,984	16.5%	14.3%
SG&A expenses	4,745	13.1%	2,467	3,586	6,054	14.3%	27.6%
Operating profit	1,364	3.8%	189	740	930	2.2%	-31.8%
Ordinary profit	1,061	2.9%	-13	614	601	1.4%	-43.4%
Profit attributable to owners of parent	643	1.8%	-30	450	420	1.0%	-34.6%
Earnings per share (EPS) (¥)	74.55	-	-3.46	51.81	48.35	-	-
Renovated condominium sales							
No. of sales (units)	1,129	-	584	663	1,247	-	10.5%
Sales amount (¥mn)	26,240	72.6%	15,240	15,536	30,776	72.6%	17.3%
Average sales amount (¥10,000)	2,324	-	2,609	2,343	2,468	-	6.2%

*The renovated condominium sales amount is calculated by multiplying the number of units by the average sales price.
Source: Prepared by FISCO from the Company's results briefing materials

The Company's Renovation Business segment is expected to drive an increase in net sales by 21.5% YoY to ¥33.8bn. The Company anticipates a 10.5% increase in the number of renovated condominium units sold to 1,247 units and a 6.2% increase in average sales amount to ¥24.68mn. Although sales prices for the first half was ¥26.09mn, exceeding the forecast, the Company predicts that sales of ECOCUBE will continue to grow in the second half, maintaining at least the same level as the first half. While the number of units sold will depend on the market environment, the Company is actively purchasing properties, and the planned figures appear attainable. However, due to the rising cost of construction materials, the gross profit margin is expected to settle down to the upper 13% range, similar to the figure the Company initially had planned (14% range). Thus, although net sales are likely to exceed the initial forecast, profit is expected to remain in line with the plan. Net sales in the renovation and interior finishing business are also projected to rise by 23.0% YoY to ¥1.82bn, mainly due to increased orders for corporate projects.

In the Renovation Business segment, net sales are expected to increase by 3.3% YoY to ¥8.6bn, which requires second-half sales of ¥6.8bn. The Company expects selling multiple income properties, and sales of Asset Sharing Sapporo, the Company's Asset Sharing Series No. 8, started in March 2023. Therefore sales are expected to be in line with the plan. In the Leaseback Business, the Company initially planned to securitize one property but has postponed it until FY5/24.

Expansion of ECOCUBE sales and nurturing of FLIE direct sales platform key to shifting profits to high-growth stage from FY5/24 onward

2. Medium-term Management Plan

The Company's vision of "Enriched Life for Everyone Through Renovation," announced as part of its three-year medium-term management plan as announced in July 2022, includes a commitment to promoting a circular economy framework in its renovation product. Through this approach, the company aims to drive sustainable growth, while contributing to a sustainable society. The Company will expand its low-carbon emission and energy-saving renovation ECOCUBE to cover the entire country, provide comfortable living environments, and enhance resident' quality of life. As part of its efforts to digitize real estate transactions, the Company plans to continue developing FLIE, a real estate direct sale platform, that provides fair transactions to a wider audience.

The Company has released numerical targets for FY5/25 as part of its three year-medium management plan. These targets include net sales of ¥59.1bn, operating profit of ¥2.6bn, ordinary profit of ¥2.3bn, and profit attributable to owners of parent of ¥1.5bn, with a minimum ROE of 10%. The Company aims to achieve a three-year average annual growth rates of 17.8% and 26.0% for net sales and operating profit, respectively. While the Company expects an increase in sales in FY5/23, it also anticipates a decline in profit due to upfront investments in new business fields. However, the Company is looking for profits to transition to a high-growth stage in FY5/24. The Renovation Business Field is expected to drive growth, while the Solutions Business Field will provide a foundation for stable earnings. The Company anticipates that the Renovation Business Field will account for approximately 70% of operating profit in FY5/25, up from roughly 60% in FY5/22. The Company also plans to invest a cumulative total of ¥3.1bn over three years in new business, branding enhancement, personnel, systems and other areas to reinforce its operations.

Medium-term results target

(¥bn)

	FY5/22 Results	FY5/23 Results	FY5/24 Results	FY5/25 Results	Annual average growth rate
Net sales	36.1	42.4	50.7	59.1	17.8%
Operating profit	1.3	0.9	1.7	2.6	26.0%
Ordinary profit	1.0	0.6	1.3	2.3	32.0%
Profit attributable to owners of parent	0.6	0.4	0.9	1.5	35.7%

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

(1) Rollout of ECOCUBE

ECOCUBE is the Company's strategic product, designed as an energy-saving renovation condominium that delivers both comfortable and economic benefits. The product achieves energy efficiency by performing unit-specific heat calculations* and installing insulation that maintains optimal heat insulation and airtightness such as high-performance heat insulation materials and inner windows with vinyl sashes. Additionally, high-efficiency air conditioners and high-performance ventilation systems are installed to provide further comfort to residents. Initially developed in 2011, the product underwent multiple improvements before being re-released in July 2011 as ECOCUBE ECOCUBE is an innovative product that offers "energy-efficiency + improved quality of life" in existing residences, aligning with the Japanese government's goals of reducing carbon emissions and building a sustainable society.

* The Company utilizes its in-house standards to match specific conditions, such as location and property structure when energy-saving housing design support tools to calculate unit-specific heat. This calculation involves simulating energy consumption, cooling and heating costs, and air conditioning usage of the unit before and after renovation. Based on the results of the calculations, the Company designs a renovation plan aimed at achieving optimal housing performance and creating a comfortable living environment.

ECOCUBE Features

Features	Content
Pleasant air	Class 1 ventilation equipment (heat-exchange-type) constantly and efficiently provides fresh air by removing pollen, dust, and other particles with embedded air filters.
Good for health	Studies indicate that highly insulated houses with an indoor temperature above a certain level can help prevent heat shock and high blood pressure.
Reduced condensation	Increasing insulation using insulating materials and vinyl sashes can reduce indoor temperature differences and condensation, limiting the occurrence of mold.
Energy-saving and economic benefits	Vinyl sashes and insulating materials can improve airtightness and insulation levels based on heat calculations, while Class 1 ventilation equipment (heat-exchanger-type) can be installed to take in outside air close to the indoor temperature. This can help reduce heating and cooling costs compared to before the renovation.
Environmental impact	Improved insulation performance can lower the consumption of energy for heating and cooling thereby contributing to CO_2 reduction.

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

Despite being priced about 10% higher than the average renovated condominium, the installation of energy efficient air conditioning and heating equipment can significantly reduce electricity consumption*, making the property eligible for energy-saving housing loans and local government subsidies. Asa a result, the initial impression of the high cost may fade away. Furthermore, with electricity bills increasing significantly since 2022 the Company's efforts to promote and sell ECOCUBE, are likely to receive strong support.

* For instance, calculations have shown that for a 1 Bedroom +1 Bathroom condominium of roughly 65m2) with two residents and average outdoor temperature of 16°C, annual heating and cooling costs can be reduced by approximately 89%, from ¥108,000 to ¥11,000.

Outline of housing loan tax reduction for ECOCUBE

	Borrowing limit		Deduction period
	22-23 year living period	24-25 year living period	
ZEH level energy-saving residence	¥45.00mn	¥35.00mn	13 years
Home that conforms with energy-saving standards	¥40.00mn	¥30.00mn	

Source: Prepared by FISCO from the Company's medium-term management plan

“FLIE Sumai Sõken”, FLIE’s website providing customers with information regarding housing, conducted a questionnaire survey on energy-saving homes, where the results revealed that 69.5% of respondents were aware of such homes. Among these respondents, 76.8% responded with a “Yes” to choosing an energy-saving home when purchasing one. Lower utility cost (about 90.0%), followed by concern for the environment and comfort level were most popular the reasons given for choosing energy-saving homes. However, those who answered “No” cited the high price (64.0%), and limited selections of properties to choose from (40.0%). These results indicate a significant potential for ECOCUBE to grow.

Questionnaire survey regarding energy-saving housing

Would you choose an energy-saving house when purchasing a home?

Yes	76.8%	No	23.2%
Reasons		Reasons	
Lower the utility costs	89.9%	High price	64.0%
Concern for environment	42.6%	Selection of properties to choose from	40.2%
Higher level of comfort	32.7%	To save energy by relying on energy efficient appliances.	15.9%
Subsidies, tax breaks	29.8%	Lacking knowledge to make an informed decision about energy-saving measures	13.4%
Easy to sell	2.9%	The setup and operation seem too complex	11.6%
Other	0.4%	No necessity to save energy	9.1%
		Other	4.3%

Source: FLIE Magazine (June 14-18, 2022; surveyed 1,018 people aged 20 and higher)

The Company has set a target of selling 1,603 units in FY5/25, which is an increase from the 1,129 units sold in FY5/22. It aims for ECOCUBE to account for 800 of these units, representing around 50% of the total sales. During FY5/22, the introduction rate was over 100 units, but the target for FY5/23 is 40%. However, the introduction rate for the first half of the year was just 11%, As a result, the Company plans to increase sales by promoting ECOCUBE more actively in the second half of the year. In December 2022, the Company launched TV commercials and billboard advertisements in the Tokyo metropolitan area, and, in 2023, it will expand its promotional activities to public transportation and online video ads. Starting in FY5/24, the Company plans to run TV commercials in major cities outside the Tokyo metropolitan area to further increase recognition of ECOCUBE.

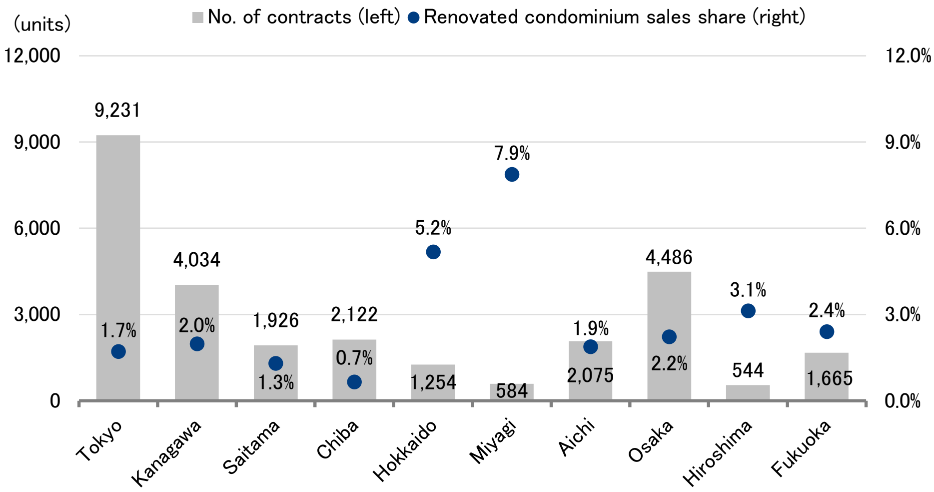
Renovated condominium sales targets and ECOCUBE introduction forecast

	FY5/22 Results	FY5/23 Forecasts	FY5/24 Forecasts	FY5/25 Forecasts	Annual average growth rate
Number of units sold	1,129	1,247	1,439	1,603	12.4%
Of these, number of ECOCUBE units	-	500	650	800	-
ECOCUBE introduction rate	-	40%	45%	50%	-

Source: Prepared by FISCO from the Company’s medium-term management plan

The Company can accelerate the pace of sales by promoting its strengths, such as energy savings and quality of life, and enhancing its brand power. This is expected to increase its share in each area. Even if the pre-owned condominium market stagnates, the Company still has room to grow by increasing its low single-digit sales share. Additionally, the Company has developed renovation technologies that address the structural restrictions of properties, such as first floor, top floor, duct size and number which has reduced supply constraints. As of December 2022, the ECOCUBE introduction rate on a construction-start basis had risen to 21%, and the Company expects further sales growth in the future.

No. of used condominium contracts and renovation condominium market share (1H FY5/23)



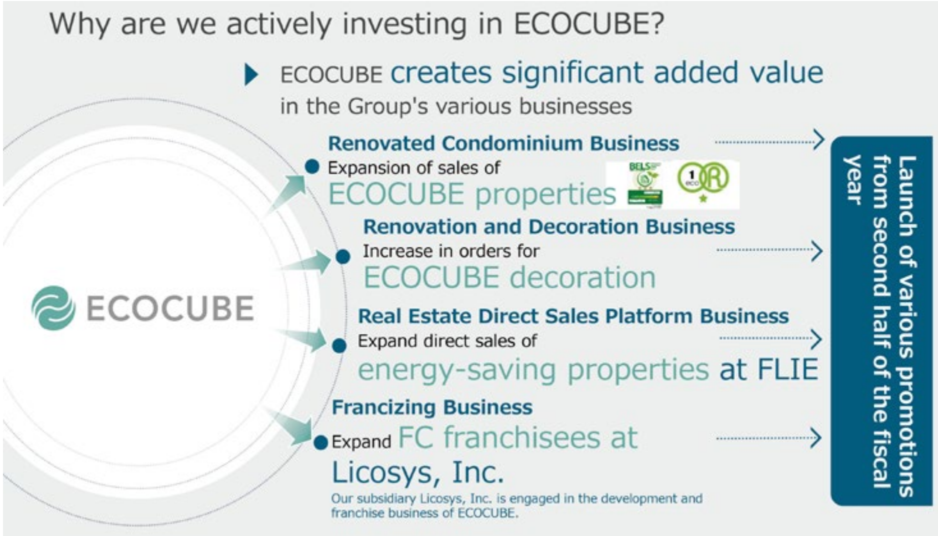
Note: The data covers June to November 2022. Sales share: Number of units sold at each branch divided by the number of pre-owned condominium contracts in the prefectures where the branches are located.
Source: For pre-owned condominiums, "Monthly Market Watch Summary Report (National)," Real Estate Information Network for East Japan

The Company has estimated* it can achieve a CO2 reduction effect of 975 tons per year, or roughly equivalent to 111,000 cedar trees (approximately 24 Tokyo Dome's worth), by selling a cumulative total of 1,950 ECOCUBE units over the next three years. This initiative towards a decarbonized society aligns with the Japanese government's target of reducing greenhouse gas emissions by 46% (versus 2013 levels) by 2030, with a specific goal of reducing CO2 emissions in the Household sector by 66%. To achieve this target, the government passed the revised Building Energy Efficiency Act in May 2022, which requires all new housing to comply with energy-saving standards from FY2025. However, only 19% of existing houses (approximately 50.00mn units), meet current energy-saving standards, which means there is room for energy-saving renovations. As a result, the government is expected to continue to provide support measures in form of subsidies and tax cuts. Given these factors the market environment is oriented towards the spread of ECOCUBE. FISCO believes that the Company, which has introduced this energy-saving renovation product ahead of the rest of the industry, will have even greater growth opportunities than in the past.

* This estimate assumes a condominium with 65m2 of floor space and is based on calculations by Assoc. Prof. Takao Katsura of the Environmental System Research Laboratory, Graduate School of Engineering, Hokkaido University.

RECOSYS Inc, a subsidiary of the Company, began developing franchise business in April 2022. The services provided by RECOSYS include heat calculations, subsidy applications, design and construction, material procurement, sales, and other types of support. Although the number of franchise companies is currently small, it is expected to increase as ECOCUBE gains recognized as a highly demanded product. The Company aims to establish a franchise network of 100 companies as an initial target and develop the business into one that promotes the Group's stable growth. The franchise companies are expected to include existing partners and companies and contractors in the same industry that purchase and resell pre-owned condominiums. The popularity of ECOCUBE is expected to increase sales growth in the renovation and interior finishing business thereby driving the Company's future performance.

Increasing profitability with ECOCUBE



Source: The Company's results briefing materials

(2) The FLIE real estate direct sales platform

In November 2019 the Company established FLIE Co., Ltd., a consolidated subsidiary and launched FLIE, a website for direct sales of pre-owned condominiums. By facilitating direct communication between buyers and sellers (real estate companies), FLIE eliminates the need for buyers to pay a broker fee (approximately 3% of the property price). This cost-saving feature is expected to attract more buys, especially as consumer sentiment may deteriorate with rising interest rates.

As of January 2023, FLIE's listing is limited to the Tokyo metropolitan area, but the number of listings has steadily increased to over 2,100 (over 1,500 in July 2022), making it one of the largest direct sales sites in Japan. The Company aims to expand the listing area to cover all of Japan during the second half of FY5/23, and this expansion will be monitored as an initiative for increasing sales of Company properties like ECOCUBE.

In order to increase convenience to users, the Company is developing a number of functions. One such function is the Smaview touchless self-tour reservation system, which allows users to view the interiors of actual properties at any time by making an online reservation with their smartphone. This system is being tested with a limited number of properties and is continuously being improved. Additionally, since 2022. electronic contracts for real estate properties have been allowed. Going forward an electronic contracting function is expected to be added to the site.

The volume of sales on FLIE is still small, and development investment will take precedence for the time being. However, it is expected that the site will contribute to earnings if listings increase when the site expands nation-wide. Currently, contract commissions are recorded as sales. In the future, the Company is expected to provide various added functions developed for real estate companies that list properties on the site and collect service usage charges.

(3) Breakdown of growth investment

The Company has planned to invest a cumulative total of ¥3.1bn in growth investment over a three-year period until FY5/25. The investment will be distributed as follows: ¥1.0bn in new business fields, ¥1.1bn in branding enhancement, and ¥1.0bn in personnel and system development. Growth investment in new business fields includes the development costs for expanding the functionality of FLIE and costs related to ECOCUBE. Branding enhancement on the other hand, will focus on branding costs for renovated condominiums, including ECOCUBE. As for personnel, the Company plans to increase the number of employees from 327 employees to 428 by FY5/25, with the majority of reinforcements in new business fields and administrative divisions. Sales personnel will stay at their current level, with efforts to increase productivity per person.

Breakdown of upfront investment

(¥bn)

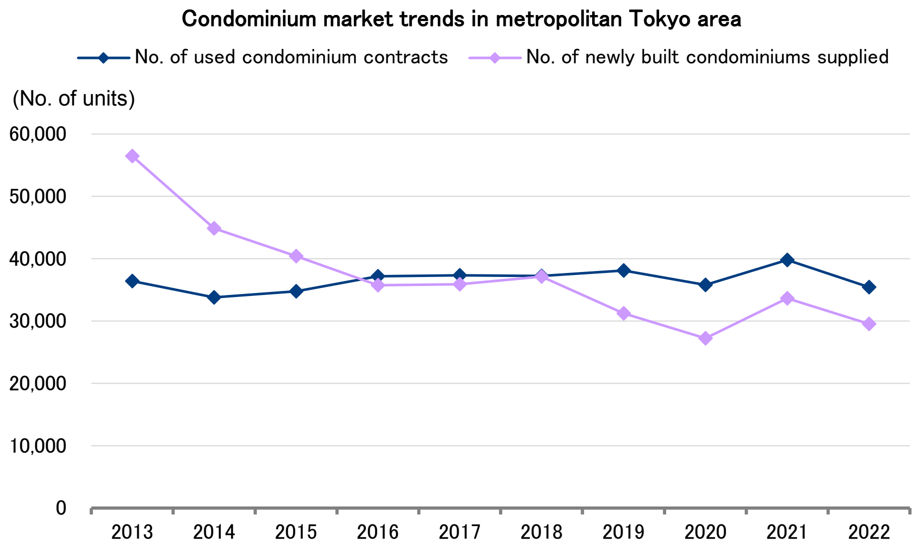
	FY5/23	FY5/24	FY5/25	3-year total
New business fields	0.4	0.3	0.3	1.0
Branding enhancement	0.2	0.4	0.5	1.1
Bolster personnel/systems	0.1	0.2	0.7	1.0
Total	0.7	0.9	1.5	3.1

* Figures for each fiscal period are additional investment costs based on FY5/22 values
Source: Prepared by FISCO from the Company's medium-term management plan

The growing role of pre-owned condominiums and the increasing demand for energy-saving renovated condominiums

3. Medium- to Long-term Outlook for Renovated Condominiums Market

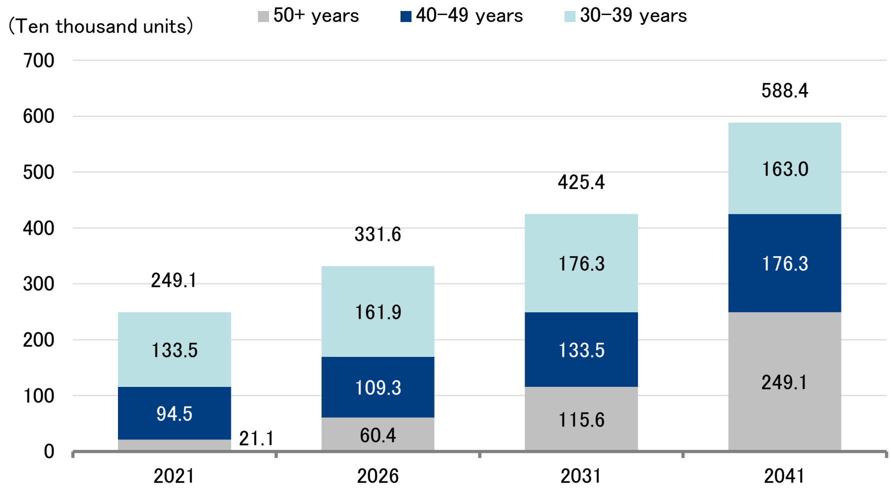
In 2022, the condominium market in the Tokyo metropolitan area experienced a reversal in trends, with both the number of pre-owned condominium contracts and newly built condominiums supplied decreasing for the first time in two years. Specifically, the number of pre-owned condominium contracts decreased by 11.0% YoY to 35,429, while the number of newly built condominiums supplied decreased by 12.1% to 29,569. Factors behind these declines include ongoing delays in procuring construction materials and sales price increases, as well as consumer sentiment that has dipped due to the uncertain economic outlook. Despite these challenges, pre-owned condominiums have held a dominant position in the market for seven consecutive years, with their position continuing to rise each year. As such, it is expected outstripped that the leading role in the condominium market will shift from newly built units to the pre-owned market.



Source: Prepared by FISCO based on data from the Real Estate Information Network for East Japan for pre-owned condominiums and the Real Estate Economic Institute Co., Ltd. for newly built condominiums

Looking ahead over the medium to long term, it is expected that the pre-owned condominium market will become more stable due to the accumulation of stock. At the same time steady growth is expected in the market of renovated condominiums. According to a survey by the Ministry of Land, Infrastructure, Transport and Tourism, the national stock of condominiums in 2021 was 6,859,000 units. Of these, 2,491,000 units, or approximately 36% of the total, were constructed at least 30 years ago and require renovation. By 2041, this number is expected to grow by approximately 2.4 times to 5,884,000 units. While obtaining the consent of residents is necessary for an entire condominium building renovation, projects for single condominiums will support the growth of the renovated condominium market. So far, only 316 condominium buildings have been rebuilt nationwide, including those undergoing reconstruction as of April 2022. For this reason, the trend in the pre-owned condominium market is expected to be renovating and selling individual units, with a particular demand for energy-saving renovation products. FISCO predicts that this trend will continue, and the Company is in a good position to benefit from it, having entered this field ahead of other companies and with an extensive track record of interior renovations.

Estimated number of condominium units in stock by building age



Source: Prepared by FISCO from data from the Ministry of Land, Infrastructure, Transport and Tourism

Company targets to meet continued listing criteria of TSE's Prime Market by achieving ¥3.2bn ordinary profit and 13% ROE of 13% in FY5/27

4. Initiatives for Prime Market's Continued Listing Criteria Conformance Status

(1) Basic policy to conform with continued listing criteria

The Company chose to be listed on the Prime Market after the Tokyo Stock Exchange restructured its market divisions in April 2022. As of the end of FY5/2, the Company had met the standards for the number of tradeable shares and tradeable share ratio, but its tradeable shares market cap of ¥3.003bn fell significantly short of the required level of ¥10.0bn, and this situation remains unchanged at now. In December 2021, the Company submitted a plan to the TSE outlining its strategy for meeting the continued listing criteria with a plan period extending to FY5/27. In August 2022 the Company announced that it had made steady progress on the plan. To maintain its listing on the Prime Market, the Company will continue to work towards achieving its targets for ordinary profit and ROE.

Conformance status with Prime Market's continued listing criteria

	Number of tradeable shares	Tradeable shares market cap	Tradeable share ratio
As of end of May 2022	46,478 unit	¥3.003bn	52.0%
Continued listing criteria	20,000 unit	¥10.0bn	35%
Conformance status	○	×	○

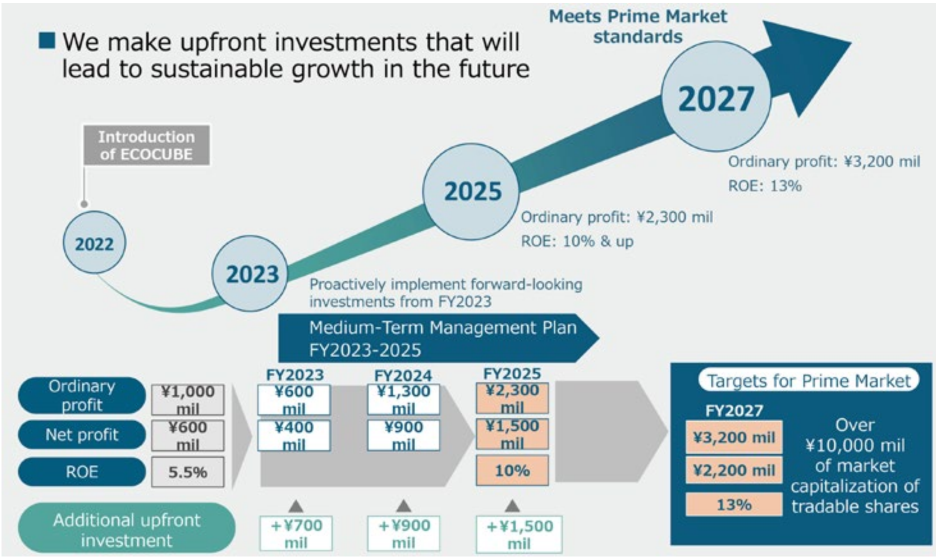
Source: Prepared by FISCO from the Company's releases

The Company has given the following three points as its basic policy for tradeable share market cap of ¥10.0bn.

a) Plans to improve results in line with medium-term management plan and meet listing criteria for new market division

To achieve stable growth and conform with new market division continued listing criteria and its medium-term management plan, the Company has formulated a plan of aiming that involves building a stable business portfolio. This plan includes expanding the penetration of ECOCUBE, an energy-saving renovation product, developing FLIE, a direct-sales platform business, and achieving steady growth in the Solutions Business. The Company has set quantitative numerical targets for FY5/27, including an ordinary profit of ¥3.2bn, profit attributable to owners of parent of ¥2.2bn, net assets of ¥17.5bn and an ROE of 13%. These targets represent significant growth compared to FY5/21, with a 1.7 increase in ordinary profit and a doubling of profit attributable to owners of parent and net assets.

Growth Scenario for Meeting Prime Market Criteria



Source: The Company's results briefing materials

If the Company achieves its earnings target for FY5/27, it could also reach a tradeable shares market cap of ¥10.0bn. This assumption is based on a P/E ratio of 9.0 times, which has been the Company's average for the past five years to FY5/21. When converted based on profit attributable to owners of parent in FY5/27, its shares market cap will be ¥10.3bn*. However, the Company's current P/B ratio, which is the ratio of net assets per share, is 0.4 times, below the liquidation value. In comparison, the TSE Prime Market's real estate sector average is 1.2 times, and a competitor in renovated condominiums, Star Mica Holdings <2975>, has a P/B ratio of 1.1 times with nearly the same level of net sales. Therefore, it is undeniable that the Company's valuation is insufficient.

* The estimated market capitalization of ¥10.3bn in FY5/27, is based on the below calculation:
9.0 times × ¥2.2bn × 52.0% = ¥10.3bn. If the valuation rises to 11 times, which is the average P/E ratio of the real estate sector on the TSE Prime Market as of December 2022, the estimated market capitalization would be ¥12.6bn.

In FISCO's view, the reason why the Company is undervalued is due to the stagnation of its results in recent years caused by increased competition in the renovated condominium market, which resulted in lower growth expectations. However, if the Company can identify a path to resume growth, there is a higher likelihood that it will be valued at a P/B ratio of at least 1 times. If net assets rise to ¥17.5bn in FY5/27, and the Company is valued at a P/B ratio of approximately 1.1 times, its tradeable shares market cap will reach ¥10.0bn*. Although profits will decline in FY5/23 due to the burden of upfront investments, if the Company can achieve significant profit growth from FY5/24 onward due to expanded sales of ECOCUBE, FISCO believes that the relatively low P/B ratio will be corrected.

* The estimated tradeable shares market cap of ¥10.0bn is based on the below calculation:
1.1times × ¥17.5bn × 52.0% = ¥10.0bn.

b) Enhance corporate governance

In order to sustain growth and raise corporate value over the medium to long term, the Company has identified the reinforcement of corporate governance as a key management issue. Specifically, it plans to actively apply the Corporate Governance Code (June 2021 revision), which centers on the general principles applicable to the Prime Market. By doing so, the Company aims to enhance corporate value.

The Company is currently undertaking a project to make disclosures under the Task Force on Climate-related Financial Disclosures (TCFD) framework and respond to the CDO survey (formerly the Carbon Disclosure Project) by FY5/24. The Company has also started to consider policies and initiatives for practicing human resource management.

c) Strengthen IR activities

The Company is taking measures to enhance its corporate value by providing IR information and engaging with investors from a medium-to long-term perspective. This initiative began with the announcement of its five-year medium-term management plan, which started with FY5/23. The Company aims to promote itself as a sustainable organization that contributes to a decarbonized society by increasing awareness and understanding of its ECOCUBE product to institutional investors, individual investors, and others with medium- to long-term investment policies. Moreover, the Company will focus on considering shareholder return measures to increase liquidity. By doing so, the Company intends to create a more attractive investment environment for long-term investors. This approach is part of the Company's overall efforts to reinforce its corporate governance and improve corporate value in the medium to long term.

(2) Tokyo Stock Exchange announcement regarding the end of transitional measures for continued listing criteria

On January 25, 2023, the Tokyo Stock Exchange made an announcement proposing the termination of transitional measures related to continued listing criteria by March 2025. These measures allowed companies that were listed on the TSE First Section, but did not meet the listing criteria for the Prime Market after the market segments were reorganized in April 2022, to select the Prime Market. However, the end date for these transitional measures had not been previously determined. The recent announcement clarified that transitional measures will officially end on March 31, 2025 for companies with fiscal years ending in March. If a company fails to meet the listing criteria within the following year (known as the "improvement period"), its securities will be designated as "Securities Under Supervision and Securities to Be Delisted" from April 2026. If a company meets the criteria within a period of six months, in principle, the designation is rescinded. But if they fail to do so, the company will be delisted. However,, if a company discloses a plan to meet the continued listing criteria that goes beyond the record date, the company's securities will be designated as Securities Under Supervision until the company's conformance with the criteria is confirmed at the end of its plan. The company's securities will either be delisted or the designation will be removed six months after the end of the plan. If this proposal is made official and codified, companies listed on the Prime Market that were previously listed on the First Section of the former market will again be given the opportunity to select the Standard Market for a six-month period following the implementation date as a relief measure with no examination conducted.

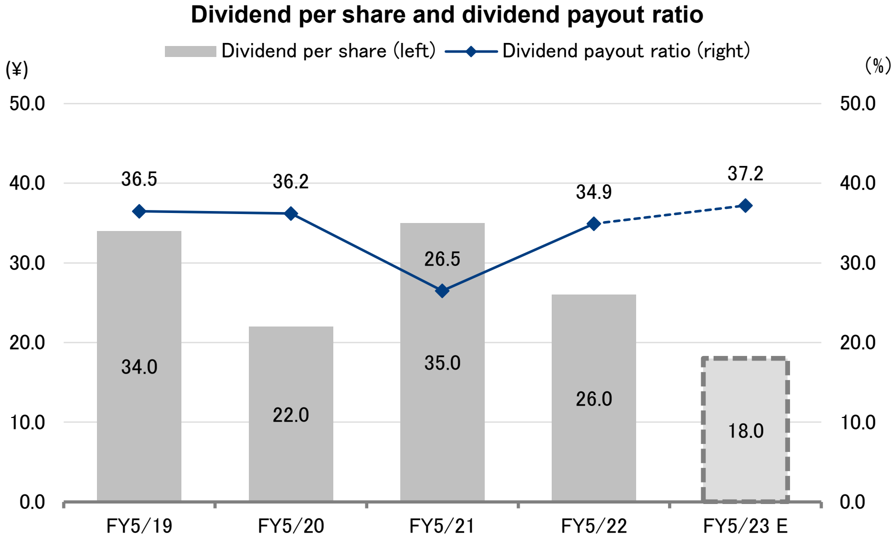
The Company has indicated in its plan for meeting the continued listing criteria that it will take until FY5/27. As a result, the transitional measures for the Company would end May 31, 2025. The Company would then have until November 2027 to meet the criteria, otherwise it would be delisted. In addition, within six months of the system's implementation date, the Company could choose to change to the Standard Market. It is expected that the Company will decide which option to choose after assessing its performance and stock price trends over the next approximately one year.

Shareholder Return Policy

Dividend payout ratio Target of at least 30% and new Share Buyback Program

The Company has a shareholder return policy of paying dividends to its shareholders. The dividend policy is based on linking dividend to results, strengthening the Company's financial position, and supplementing retained earnings. The Company targets a dividend payout ratio (on a consolidated basis) of at least 30%. For FY5/23, the Company forecasts a decline in profits, so it plans to decrease the dividend per share to ¥18.0 (a decrease of ¥8.0 YoY), resulting in a dividend payout ratio of 37.2%. However, if the Company's results improve according to the medium-term management plan, it is expected to increase dividends starting from FY5/24.

Moreover, the Company has announced a share buyback program on January 27, 2023, with a plan to acquire up to 420,000 shares (4.8% of shares outstanding) for a total price of up to ¥200mn. The share buyback program will take please between January 30, 2023 and May 24, 2023.



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

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