COMPANY RESEARCH AND ANALYSIS REPORT

New Constructor's Network Co., Ltd.

7057

Tokyo Stock Exchange Standard Market

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Summary

A corporate group operating a network for the SE-Structure Method, its proprietary system for wooden buildings, and that integrates technologies, assets, and lifestyles.
Growth will be accelerated by the reduction in scope of the Building Standards Law Article 20 No. 4 Special Exemptions

New Constructor's Network Co. Ltd. <7057> (hereafter, also "the Company") conducts a business for advanced structural calculations to ensure the earthquake resistance of wooden buildings. It also provides the SE-Structure Method, which is the Company's proprietary construction system that incorporates the rigid construction method (a method of bonding the respective parts to the framework (parts) with rigid joints), which has been the mainstream method for steel-framed and reinforced concrete (RC) structures, into wooden housing, to realize wooden buildings with high levels of structurally calculated earthquake resistance. It provides this method through its network of registered SE-structure contractors.

1. Overview of FY3/22 results

In the FY3/22 results, net sales were ¥8,571mn (up 33.3% year-on-year (YoY)), gross profit was ¥2,051mn (up 27.2%), operating income was ¥396mn (up 40.1%), ordinary income was ¥419mn (up 29.7%), and profit attributable to owners of parent was ¥305mn (up 35.4%). So sales and profits increased, and moreover net sales and every profit item set new record highs. Against the backdrop of the rising demand for new houses in the United Sates, a major problem is the so called "wood shock," of the supply shortage and rising prices of wood. However, from the starting point of structural design, which is one of the Company strengths, it has been able to stably secure and supply wood through the effective functioning of its own integrated supply chain that covers every process, from materials procurement through to construction work.

2. FY3/23 consolidated results forecasts

For the FY3/23 results, the Company is forecasting net sales of ¥9,734mn (up 13.6% YoY), gross profit of ¥2,384mn (up 16.2%), operating income of ¥429mn (up 8.4%), ordinary income of ¥461mn (up 10.0%), and profit attributable to owners of parent of ¥326mn (up 7.0%). Against the backdrop of the impact on the economy of the novel coronavirus pandemic (hereafter, COVID-19) and also the global imbalance between the demand and supply of wood resources in the housing industry, a situation has continued of rising wood prices and confusion in the supply structure (the wood shock), which is a cause for concern and we cannot be optimistic about this situation. However, for laminated wood used in the SE-Structure Method, the Company uses products that are all manufactured by manufacturers in Japan, and continuing in FY3/23 as well, it plans to further strengthen through collaborations with laminated wood manufacturers. Also, about 30% of its raw materials are wood produced domestically, and the technical evaluations of the cedar materials and other materials used in the SE-Structure Method had already been acquired by September 2020, and it is conducting preparations to increase the domestic produced wood ratio.

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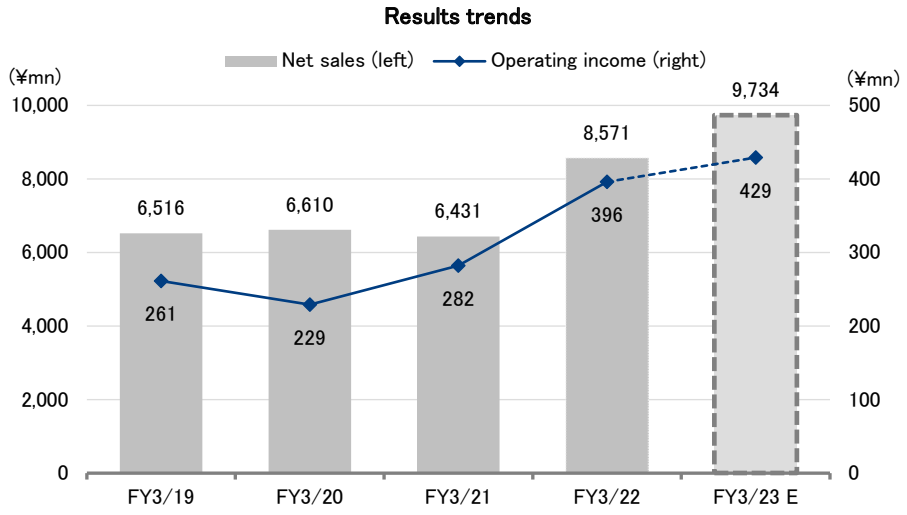
3. In 2025, the scope of the Building Standards Law Article 20 No. 4 Special Exemptions will be reduced

In 2021 in the revised Building Energy Efficiency Act, the "obligation to explain energy-saving performance" was started, and in 2025, it is expected that the scope of the Building Standards Law Article 20 No. 4 Special Exemptions will be reduced, and the Ministry of Land, Infrastructure, Transport and Tourism has announced the obligation to comply with energy-saving standards for all new buildings. For detached houses as well, at the same time as the obligatory inspection, it is possible that it will be necessary to conduct a structural inspection at the time of applying for approval even for small-scale, two-floor wooden buildings. Currently, detached houses built of wood that satisfy the requirements, including having 2 or fewer floors and a floor area of 500m^2 or less are exempted from the structural inspection in the construction approval. But by reducing the scope of No. 4 Special Exemptions, the special handing of wooden buildings will be revised and they will be treated the same as buildings with other structural forms. So far, the Company has continued to grow through taking initiatives in response to government policies ahead of others, and at FISCO, we think that the reduction in the scope of the Building Standards Law Article 20 No. 4 Special Exemptions will accelerate its growth. In June 2022, it acquired 49% of the shares of MAKE HOUSE held by PaperlessStudio Co., Ltd. and made it a wholly owned subsidiary. Making it a wholly owned subsidiary will enable the Company to respond more quickly in order to actively launch new businesses and conduct investment toward growth in the future.

Key Points

- Developing a business platform for wooden building businesses
- Conducts business in response to government policies ahead of others
- Even during the wood shock, has a stable supply of wood
- Growth will accelerate from the reduction in scope of the Building Standards Law Article 20 No. 4 Special Exemptions



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

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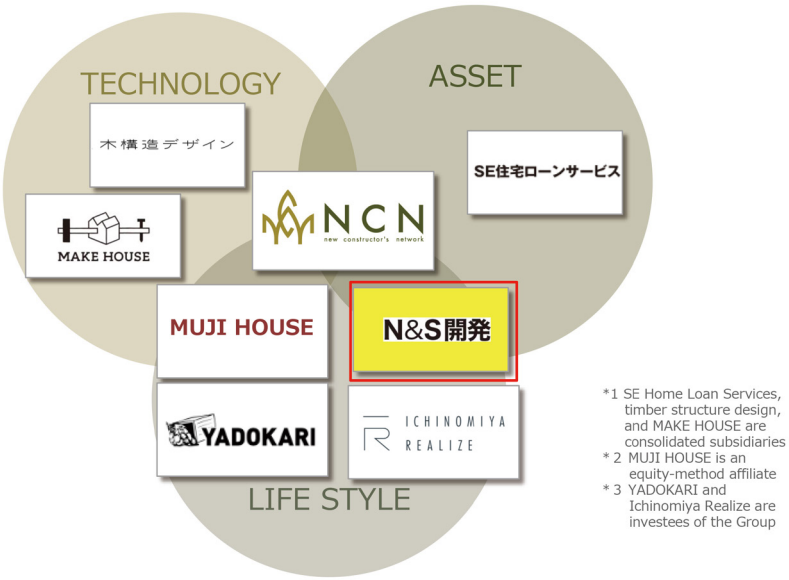
Company profile

Provides a one-stop service that can resolve the problems facing contractors and design offices

The Company conducts a business for advanced structural calculations to ensure the earthquake resistance of wooden buildings. It also provides the SE-Structure Method, which is the Company's proprietary construction system that incorporates the rigid construction method that has been the mainstream method for steel-framed and RC structures, into wooden housing, to realize wooden buildings with high levels of structurally calculated earthquake resistance. It provides this method through its network of registered SE-structure contractors, mainly building contractors. In addition to structural design work and the stable supply of materials, it can provide a one-stop service to resolve the problems facing contractors and design offices, from confirming the heat insulation performance of wooden housing through to arranging guarantees and insurance. The New Constructor's Network Group (hereinafter also the "Group") is a corporate group centered on the Company. It combines the technologies field through Timber Structure Design Co., Ltd. and MAKE HOUSE Co., Ltd., the assets field through SE Home Loan Services Co., Ltd., and the lifestyles field through MUJI HOUSE Co., Ltd., YADOKARI Co., Ltd., Ichinomiya Realize Co., Ltd., and N&S Development Co., Ltd.

In the lifestyles field, in December 2019 the Company entered into a capital and business collaboration with YADOKARI. It is engaged in survey research and media management on new ways of living in the world; the planning and development of idle land and interim land through utilizing cabins and moveable assets; and town-development support. Ichinomiya Realize was established in August 2016 for regional revitalization as a town-development company through funding by Ichinomiya Town, Chosei District, Chiba Prefecture, the Company, and other private-sector companies. Also, in April 2022 the Company established N&S Development jointly with Sanu Inc. to develop the SANU 2nd Home fixed-fee subscription service. In the SANU 2nd Home service provided by Sanu, the aim is to promote the spread of wooden buildings toward realizing a decarbonized society by providing lodging buildings that utilize the SE-Structure Method.

Status of the New Constructor's Network



Source: Reprinted from the Company's financial results briefing materials

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Company profile

The Company was established in 1996 with the aims of disseminating safe and secure wooden structures and building a framework to provide homes with asset value. The Company President, Mr. Ikuo Takusari, was formerly employed in Nissho Iwai Corporation (currently, Sojitz Corporation <2768>). The Great Hanshin-Awaji Earthquake occurred in 1995, when he was active as a businessman in a trading company, and he witnessed the catastrophic damage to wooden housing. This informed him of the fact that wooden housing, which constitutes the majority of housing, does not employ structural calculations. So rather than being "weak because they are wooden," these structures lacked structural designs from the start.

New Constructor's Network was established in 1996 as a joint venture between Seven Industries Co., Ltd. <7896> and Nissho Iwai. At that time, it requested the assistance of Mr. Shigeru Ban, the structural designer who had worked on the construction of the Nagano Olympics Memorial Arena. Utilizing Mr. Ban's expertise in large-scale buildings, the Company developed the SE-Structure Method for general homes also and worked on innovations in wooden building construction technologies. This proprietary system for wooden buildings, which offers overwhelming strength, has been one of the Company's strengths up to the present time. The SE-Structure Method is its intellectual property that cannot be duplicated by other companies because it is the result of its accumulation of 20 years of construction experience and many major housing manufacturers ask for OEM supply of standardized housing. Also, in February 2022, jointly with Tsuchiya Home Co., Ltd., it hosted a study tour of the structure site of the SE-Structure Method Wooden Four-story Building Joint Housing project, the first of its kind in Hokkaido, and in such ways it is promoting wooden buildings that have showed their potential to promote the use of domestically produced wood. The name of New Constructor's Network means forming a network with the Company at its center that is comprised of contractors, builders, housing manufacturers, and others to address the existing issues and deficiencies with wooden housing (namely, a common sense in which structural calculations have not been carried out, causing the asset value of pre-owned homes to rapidly decline.)

History

	History
December 1996	In order to not repeat the tragedy in 1995 of the Great Hanshin-Awaji Earthquake, New Constructor's Network Co., Ltd., was established in Minokamo City, Gifu Prefecture, as a joint venture between Seven Industries Co., Ltd., <7896> and Nissho Iwai Corporation (currently, Sojitz Corporation) to disseminate safe and secure wooden structures in Japan and to build a mechanism to supply homes with asset value.
October 1997	Acquired the Minister of Construction certification in the Building Standards Law Article 38 for the SE (Safety Engineering) Construction Method Wood Frame System Started sales of the SE-Structure Method
November 1998	Held the SE-Structure Method Housing Exhibition (SELL HOUSE Exhibition) by seven architects
September 1999	Started the SE Housing Performance Guarantee System ahead of the Defects Guarantee System Opened the Osaka branch office
May 2000	Acquired the Minister of Construction certification in the Buildings Standards Law Article 38 for the α– SE-Structure Method Wood Frame System (expanded the eaves height limit and an alternative-burning design)
October 2001	Acquired the Specified Constructor Business License (the Minister of Land, Infrastructure and Transport License No. 023620)
May 2002	Acquired the Minister of Land, Infrastructure and Transport certification in the Buildings Standards Law Article 68.26 for the SE-Structure Method-dedicated structural calculation program
December 2003	Started providing the "thick wooden-frame house" housing brand that uses the SE-Structure Method
January 2004	Conducted a capital participation and made an affiliate of MUJI net Co., Ltd., (currently MUJI HOUSE Co., Ltd., an equity method affiliate), a joint-venture subsidiary with Ryohin Keikaku Co., Ltd.
October 2005	Acquired the Minister of Land, Infrastructure and Transport certification for the Buildings Standards Law Article 68.26 for the SE-Structure Method Wood Frame system (split-level home)
September 2006	Acquired the Forestry Certified PEFC-CoC certification Stated the design office franchise network business (NDN business department)
June 2008	The system that includes the SE-Structure Method was adopted by the Ministry of Land, Infrastructure, Transport and Tourism for the Ultra-long-term Housing Leading Model Project Started the supply of feather-pattern materials and unit rebar in the SE-Structure Method Started sales of Walk in Structure, a SE-Structure Method-dedicated design CAD
April 2009	Following the enactment of the Act to Promote Ultra-long-term Excellent Housing, established the Ultra-long-term Excellent Housing Support Office (currently, the Ultra-long-term Excellent Housing Support Section, New Business Department) The residential housing supply system using the SE-Structure Method was certified as a Ministry of Land, Infrastructure, Transport and Tourism, Long-term Excellent Housing Leading Business and adopted as an auxiliary business Started the use of domestically produced timber in the SE-Structure Method

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Company profile

	History
October 2010	The system that includes the SE-Structure Method was selected by the Ministry of Land, Infrastructure, Transport and Tourism as the FY2010 Ultra-long-term Excellent Housing Leading Business Started the environmental design service (currently the primary energy consumption volume calculation service)
March 2012	Established SE Home Loan Services Co., Ltd., (currently a consolidated subsidiary) to conduct operations including loan agency operations and the brokerage of financial instruments The SE-Structure Method Wood Frame system received a structural assessment by the Building Center of Japan Improved the performance of the SE-Structure Method for long-term use (introduced lag screw bolts and improved the rigid frame)
March 2013	Spun-off the design office franchise network business as NDN Co., Ltd.
June 2015	Established MAKE HOUSE Co., Ltd., (currently a consolidated subsidiary) to develop and deploy BIM solutions for the housing industry
July 2016	Acquired the resilience certification
February 2017	Absorption merger of NDN Co., Ltd.
February 2018	Relocated site of the Head Office to Minato Word, Tokyo
March 2018	Acquired the Housing Lots and Buildings Transactions Business License (Governor of Tokyo License (01) No. 101790)
March 2019	Listed on the Tokyo Stock Exchange JASDAQ market
October 2019	Participated in Isumi Forest Living, a regional revitalization project of Isumi City, Chiba Prefecture
December 2019	In the 23rd Japan Timber Engineering Society Technology Presentation, the Company's executive officer was awarded the Motoaki Okuma Award Entered into a capital and business collaboration with YADOKARI Co. Ltd., which is engaged in survey research and media management on new ways of living in the world; planning and development of idle land and interim land through utilizing cabins and moveable assets; and town-development support
February 2020	Established Timber Structure Design Co., Ltd., as a joint venture with NET EAGLE, which has the leading market share for wooden pre-cut CAT development
September 2021	Started providing structural performance guarantees for non-residential wooden buildings for the first time in the industry
October 2021	Started full operations at MAKE HOUSE BIM BASE, the BIM/CAD Center that is a new BIM business base in MAKE HOUSE's wooden buildings field
February 2022	Opened the Timber Structure Lab. as a base to develop wooden structure-related technologies
April 2022	Established N&S Development Co., Ltd. through a joint investment with Sanu Inc.
June 2022	Acquired the shares of MAKE HOUSE (made it a wholly owned subsidiary)

Source: prepared by FISCO from the Company's securities reports and press releases

Business overview

The SE-Structure Method's structural calculations, which are just as precise as for steel-frame buildings, provide wooden homes with high asset value. Is focusing on introductions of BIM in the wooden-construction field which will be the growth engine going forward

1. The wooden-construction, earthquake-resistant design business

The Company conducts a business for advanced structure calculations to ensure the earthquake resistance of wooden buildings. It also provides the SE-Structure Method, which is the Company's proprietary construction system that incorporates the rigid construction method (a method of bonding the respective parts to the framework (parts) with rigid joints), which has been the mainstream method for steel-framed and reinforced concrete (RC) structures, into wooden homes, to realize wooden buildings with high levels of structurally calculated earthquake resistance. The system is provided through the Company's network of registered SE-structure contractors, mainly building contractors, offering one-stop service from structural calculation to supply of the pre-cut materials.

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(1) The residential field (the SE-Structure Method, an earthquake-resistant construction method)

At first, when the franchisee gets an order, the Company ships structural calculation sheets at the design stage. Then, it sells the structure-processed parts and other products at the construction stage. It also receives registration fees and monthly membership fees from the registered construction companies. The SE-Structure Method is a state-of-the-art wood-construction technology that realizes both excellent earthquake-resistant performance and a high degree of freedom for spaces. The wood used in the SE-Structure Method for the structural framework is all "custom laminated-wood," which is extremely strong and has consistently high levels of quality. The homes also have the advantage of few cross-section defects due to the use of SE metallic materials in the pedestal parts that connect the columns and the beams. Also, to protect against the tremors that occur in a large earthquake, the Company uses a metallic material called "pedestal metallic material," which directly connects the foundation and the pillars for the parts connecting the pillars and the foundation, which are the most fragile parts. This greatly improves their resistance to separation. Moreover, the metallic materials that are bonded to the wooden materials are extremely strong, which is also a major element of the method. However, the main reason why it is said that the SE-Structure Method is strong against earthquakes is related to the structural calculations. For wooden housing, the SE-Structure Method uses structural calculations that are supported by numerical values, the same as for steel-frame and reinforced-concrete structures, and as all properties are sold with a guarantee, houses with high asset value are provided. In the past 25 years, there have been no cases of houses incorporating the SE-Structure Method collapsing or partially collapsing due to earthquake.

a) The franchise network (residential field franchise network)

Toward the spread of wooden housing with high earthquake resistance through its proprietary construction system SE-Structure Method, the Company is aiming to strengthen acquisitions of registered contractors for its network, and in FY3/22, the number of contractors increased by 53 from the previous year to 577 companies (a net increase of 31 companies). It is promoting the appeal of joining the network on a digital exhibition site using YouTube with partners promoting DX, and by incorporating on Instagram the "Thick wooden-frame house," which is the Company's brand for housing using the SE-Structure Method. "Thick wooden-frame house" is the general term for houses with high asset value constructed by the Company's "thick wooden-frame house premium partners" that it selects from among its 577 SE-Structure Method registered contractors.

b) Housing manufacturer services (OEM supply)

The Company provides OEM supply of its SE-Structure Method for its partner companies, such as house manufacturers that sell standard housing (including several major housing manufacturers). When a partner company sells a standard home, the Company ships the structural calculations sheets, and it also sells the structure-processed parts and other products. Younoie from MUJI HOUSE, an affiliate accounted for under the equity method that provides MUJI homes, is a one-floor building that does not require corridors being only one-story and needs are high as a double-base dwelling or villa, a lodging facility for rent, etc. Other than these, MUJI HOUSE is also working on a regional revitalization business with the Urban Renaissance Agency based on housing-complex renovation.

(2) The large-scale wooden buildings (non-residential) field

In the large-scale wooden buildings (non-residential) field, the Company uses the SE-Structure Method to provide wooden buildings with a total floor area of more than 500 m^2. Due to the enforcement of such laws as the Act for Promotion of Use of Wood in Public Building (October 2010) and the Act on Promotion of Utilization of Wood in Buildings, etc. for Contributing to Realization of a Carbon Free Society, etc. (revised October 2021), construction demand for large-scale wooden buildings that require structural calculations is growing, and the Company is applying its expertise in earthquake-resistant designs for wooden buildings to large-scale wooden buildings to develop its business in this field. The features of its large-scale construction work include that its structures are lighter in weight than steel-frame and reinforced-concrete structures and it is able to keep down on construction costs and the construction period.

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The SE-Structure Method, an earthquake-resistance construction method, realizes both excellent earthquake resistance and a high degree of freedom for spaces through the use of materials that are thoroughly quality controlled and calculated structurally. This business field is growing remarkably due to the global promotion of wooden buildings and wooden materials, made relevant by environmental issues like forest conservation and global warming. In order to further accelerate growth, the Company has entered-into a business collaboration with NET EAGLE, which has the leading market share for wooden pre-cut CAD development. This collaboration is for a structural design business in the large-scale wooden buildings (non-residential) field, which also handles construction methods other than the SE-Structure Method. In February 2020, the two companies established Timber Structure Design as a joint venture. Further, in October 2020, it started providing Japan's first matching platform business to match general contractors and design offices in the large-scale wooden buildings market to pre-cut plants. Timber Structure Design will provide structural design support and processing support, in addition to establishing a production system through forming a network of pre-cut plants. At the same time, through conducting advertising activities to general contractors and design offices, it will provide a one-stop service, from structural design through to production design. For the structural design support, it will propose construction methods according to aspects such as the building's use and size (the SE-Structure Method, the conventional framework construction method*1, the 2x4 construction method, laminated wood*2 structures, the CLT*3 construction method, etc.), and the Company is aiming to increase its share in the large-scale wooden buildings market by applying to other construction methods its expertise cultivated through conducting structural calculations for more than 25,000 buildings.

*1 Conventional framework construction method: a construction method that simplifies and was developed from traditional Japanese construction methods
*2 Laminated wood: wood material made by reconstructing panels bonded with adhesive
*3 CLT (Cross Laminated Timber): thick laminated panels bonded together in layers so that each layer is perpendicular to the other layers

2. Others

In order to achieve its goal of "creating a mechanism to provide homes with asset value in Japan" centered primarily on the wooden-construction, earthquake-resistant design business, the Company provides a variety of services to improve the asset value of homes, including an energy conservation calculation service and a long-term quality housing certification agency service.

(1) Energy conservation calculation service

The Company provides various services, including an energy conservation calculation service and a long-term quality housing certification agency service. It started providing the energy conservation calculation service in 2010, looking ahead to the addition of primary energy consumption volume to the evaluation standards in 2013 with the introduction of the New Energy Saving Standard and the enforcement of the revised Building Energy Efficiency Act from 2020. (Since April 2021 in the revised Building Energy Efficiency Act, it has been made obligatory for the constructing party to explain whether or not the building complies with energy-saving standards.)

The Company provides services not only for homes constructed using the SE-Structure Method, but also for homes constructed using other construction methods, and it is working for the dissemination of zero energy homes. In order to create fuel-efficient housing, there are a wide range of techniques for keeping down the energy consumed, and "energy conservation calculations" is the method to confirm whether each one of these techniques is functioning properly before actually constructing the home. In energy conservation calculations, the home's thermal insulation performance, sunlight shielding performance, and energy volume consumption are each calculated using the calculation methods prescribed by the Japanese government. The Company issues an Energy Conservation Performance Report, which adds an explanation of the results for customers in addition to the results of these calculations

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(2) Home loan business (SE Home Loan Services)

SE Home Loan Services, which is a consolidated subsidiary and the agency of Credit Saison's Flat 35, is establishing a framework to financially back-up people acquiring homes by ordering with registered contractors.

Flat 35 lowers the initial interest rate for high-quality homes with earthquake resistance and energy-saving performance, and it is provided as a home loan that can provide support for purchasing the Company's high-quality homes while also providing peace of mind.

(3) BIM (Building Information Modeling) business

BIM refers to a system to construct a building information model with attribute information on the building, mainly of 3D shape information created on a computer, but also other information such as on the name and area of the room, the specifications and performance of the materials and parts, and the finishing. Consolidated subsidiary MAKE HOUSE is realizing the integration of data, from the designs of wooden housing through to production, and it is developing and selling BIM solutions in order to supply to the market inexpensive homes with high asset value. In June 2022, the Company acquired 49% of MAKE HOUSE shares held by PaperlessStudio Japan, making it a wholly owned subsidiary.

MAKE HOUSE's main service is a consulting business to improve work efficiency through BIM and to promote introductions of IT. In addition to BIM consulting for construction businesses, it conducts a BIM projects consignment business as a service that directly supports actual projects. Other than these, it is conducting various businesses, from content production that utilizes VR (virtual reality) and MR (mixed reality) technologies, through to developing various simulations, including presentation environments. It is also developing various tools to automate and accelerate BIM. The rate of introduction of BIM into general contractors in Japan had risen to as high as around 80% (as of 2018). But its rate of introduction in the wooden-construction field remains low and there is little data on it, and although measures to make the introduction of BIM obligatory are being progressed around the world, the situation is that Japan is lagging behind considerably for this. Amid the promotion of DX, the Japanese government is promoting the utilization of 3D data through introducing the principles of BIM. In 2D designs, it is difficult for designers to imagine and to find interference sites, but BIM makes it possible to improve the efficiency of work to check the interference visualized by BIM, to create construction plans that include the surrounding environment, and to automate quantities and construction costs from 3D models, which is changing the workstyles of both the ordering party and the party receiving the order. So at FISCO, we think that for the Company, whose strengths include a BIM business for wooden buildings, this field will become its growth engine in the future.

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Results trend

In FY3/22, sales and profits increased, and after upwardly revising the forecasts twice during the period, net sales and every profit item set new record highs. The supply chain is functioning to stably supply wood

1. FY3/22 full-year results

In the FY3/22 results, net sales were ¥8,571mn (up 33.3% YoY), gross profit was ¥2,051mn (up 27.2%), operating income was ¥396mn (up 40.1%), ordinary income was ¥419mn (up 29.7%), and profit attributable to owners of parent was ¥305mn (up 35.4%). So sales and profits increased, and moreover net sales and every profit item set new record highs. Against the backdrop of the rising demand for new houses in the United Sates, a major problem is the so called "wood shock," of the supply shortage and rising prices of wood. However, from the starting point of structural design, which is one of the Company strengths, it has been able to stably secure and supply wood through the effective functioning of its own integrated supply chain that covers every process, from materials procurement through to construction work. Net sales and every profit item were in line with the upwardly revised forecasts announced on April 14, but these forecasts were upwardly revised twice during the period. Gross profit was ¥2,051mn, 5.8% above the initial forecast (¥1,938mn). The Company did not slow down its active investment in the large scale wooden buildings field and the BIM business, which are the growth fields it is focusing on, including that it expanded the primary energy calculation service to ascertain the energy saving performance of housing and the subsidy support business, expanded the BIM business to support digitalization, established an infrastructure for the construction of multi-floor wooden buildings, and opened the Timber Structure Lab., a wooden-structure experiment and research facility.

FY3/22 full-year results

(¥mn)

	FY3/21	FY3/22	Change	Increase/ decrease rate
Net sales	6,431	8,571	2,140	33.3%
Gross profit	1,613	2,051	438	27.2%
Operating income	282	396	113	40.1%
Ordinary income	323	419	95	29.7%
Profit attributable to owners of parent	225	305	79	35.4%

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

2. Business segments and segment net sales

In terms of the housing market environment in FY3/22, demand to acquire homes remained firm against the backdrop of the changing lifestyles due to COVID-19. New housing starts continued to recover for both detached houses and rental homes, and they are also benefiting from the effects of government policies for home acquisitions, including the creation of a housing acquisition support system for the child-raising generation and the introduction of a mortgage tax reduction system depending on environmental performance and other factors. The number of new housing starts in 2021 (January to December) increased for the first time in 5 years, rising 5.0% YoY to 856,000. But needless to say, this is a rebound to the significant decline in the previous year due to the impact of COVID, and in the last 10 years, it was the second lowest number after the previous year.

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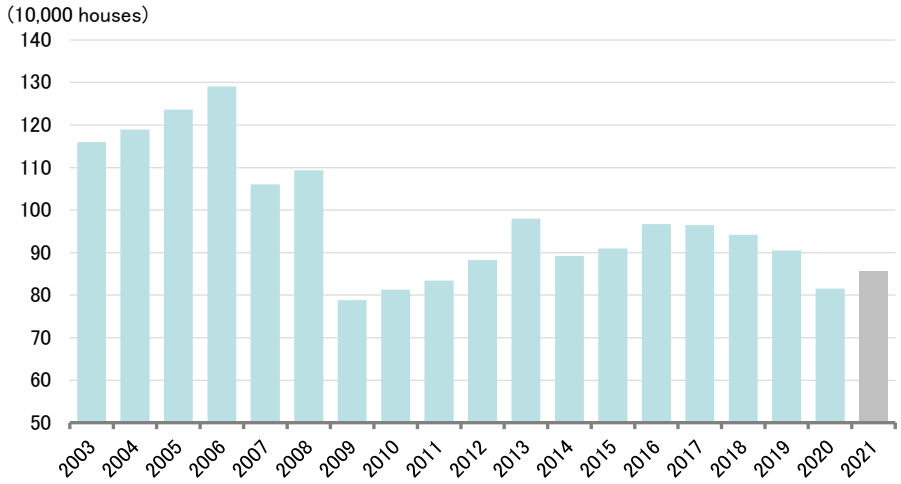
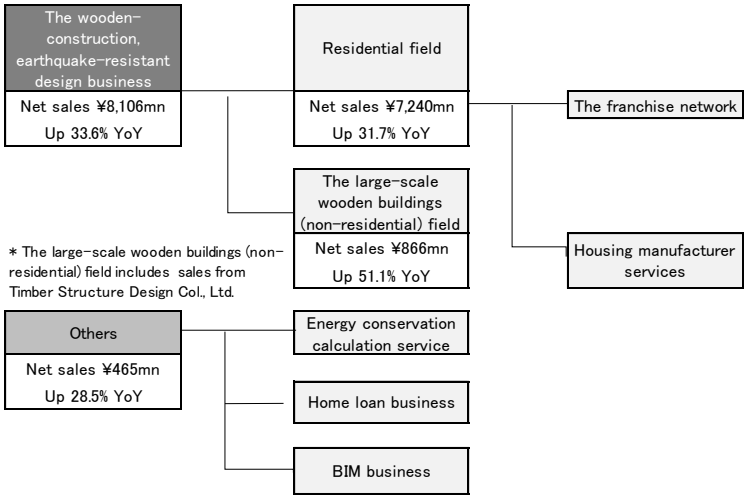
Even in this sort of business environment, the Company was able to maintain a stable supply despite the wood shock through the functioning of its systematic supply chain, which is one of its strengths. In addition, it can be said that the results have started to appear of the various growth investments it has been working on to respond to government policies in advance of others. The Company is conducting preparations for "the promotion of wooden buildings" and "DX design" toward a decarbonized society.

Trend in the number of new housing starts
(survey by the Ministry of Land, Infrastructure, Transport and Tourism)



Source: Prepared by FISCO from data on the number of new housing starts from the Ministry of Land, Infrastructure, Transport and Tourism

Business segment and segment net sales



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

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In the residential field, net sales were ¥7,240mn (up 31.7% YoY), which was a new record high. Even within the wood shock, of the global supply shortage and rising prices of wood, the Company was able to secure a stable supply of wood through an integrated supply chain of structural calculations and materials supply. As a result, the number of shipments of housing structures through the SE-Structure Method was 1,473 buildings. The needs of construction companies that require a stable supply of wood are rising, and the number of registered contractors was 577 companies (up 5.7% YoY), following the new addition of 53 companies. In the large scale wooden buildings (non-residential) field, net sales were ¥866mn (up 51.1% YoY). Sales grew significantly even though the construction periods, such as for public construction projects, has been extended greatly due to COVID-19. Due to the proactive seminar activities, the number of new requests was 535 (up 28.0% YoY), while 20 companies participated in the platform business being developed by Timber Structure Design, the subsidiary established in 2020.

In others (the development and support departments), through adopting a strategy of specializing in wooden housing in relation to the energy saving performance of homes, which became an obligation to explain from April 2021, there were 1,615 shipments of primary energy calculation sheets for wooden homes (up 56.2% YoY). Benefitting from the government's energy-saving policies for homes, this business is growing by leveraging synergies with the wooden-construction, earthquake-resistant design business.

In the technologies field, based on the trend toward wooden structures to realize a decarbonized society, needs are rising for wooden joints of even greater strength, and in February 2022, the Company opened the Timber Structure Lab., a wooden-structure experiment and research facility.

With regards to subsidiaries and affiliates, the Company established N&S Development as a joint venture with Sanu to carry out the subscription-based second house business. In addition to conducting second house product development, it has started from planning the construction of second houses that utilize the Group's network and initiatives to capture the increase in demand. MUJI HOUSE, which is a joint business with Ryohin Keikaku Co., Ltd., started B-to-B sales of Younoie, a suburban-type, one-floor product.

The Company first conducts the structural calculations upon receiving an order. In addition, it has a supply chain enabling a stable supply, which is rare among structural design companies, and as it conducts structural calculations for drawings as soon as they are received, it understands how much material is to be used and how strong it must be. It has a system in place to send data directly to laminated wood plants and also lumber manufacturing plants in Japan, to manage the inventory of the products that they produce, and to deliver them in a timely manner to the pre-cut plants that it collaborates with nationwide. In general distribution, the ordered materials are delivered to the plants, but the Company orders all the materials it will use approximately 5 months in advance, which means that delays in deliveries and shortages of materials do not occur.

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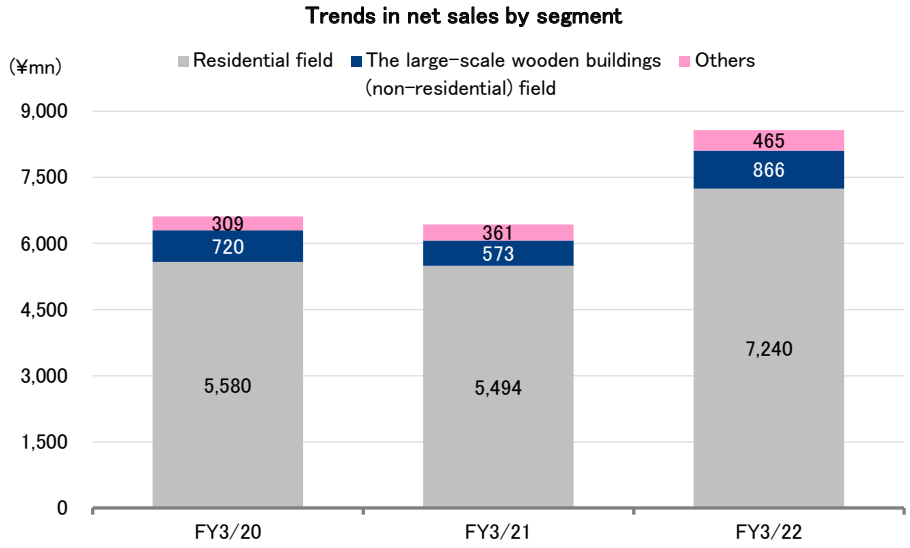
Results trend



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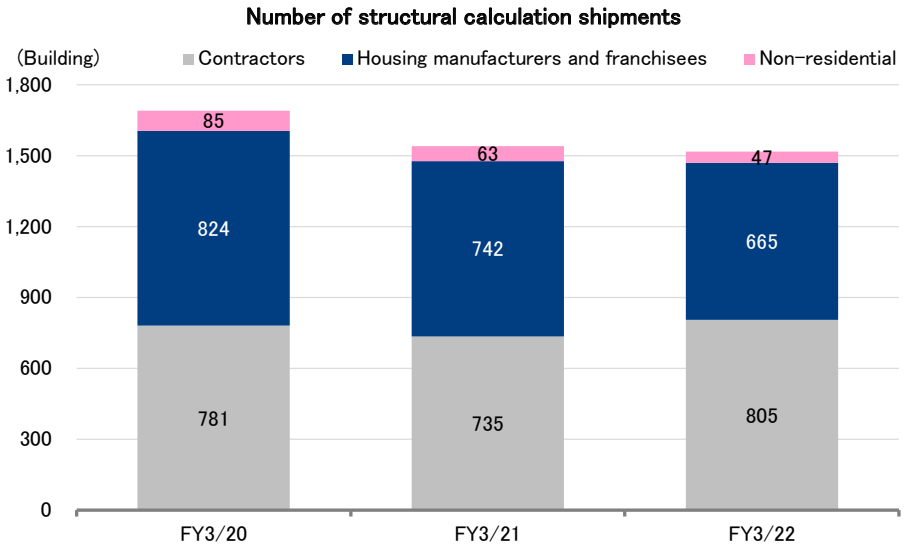
Wooden-construction, earthquake-resistant design business
Trends in the SE-Structure Method's KPI



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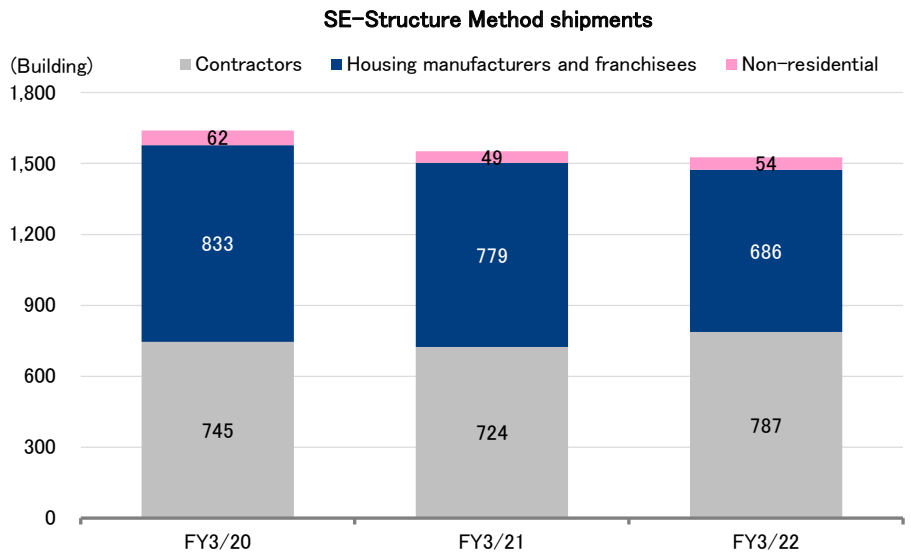
Results trend



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

The effects of the wood shock may be causes for concern for the stock markets as well, but the Company procures all of its custom laminated-wood from domestic manufacturers and is currently not experiencing any supply delays. Also, Company President Ikuo Takusari has experience of importing timber from the US, Canada, and New Zealand from when he worked in the wooden materials department of a trading company, so he has a wealth of knowledge on wood distribution, and the Company is extremely strong in terms of coping with the wood shock.

As the Company procures materials at the design stage also, it is able to ascertain wood distribution prices and ensure that it does not hold excess stock. It appears that companies such as trading companies and other housing manufacturers are in a phase of the wood shock in which they are accumulating stock. This may be effective if prices continue to rise in the future, but while the import price indexes of wood, wooden products, forest products, plywood, laminated wood and other products are trending at high levels, it seems the feeling is that they will peak out from 2022.

To keep down inflation in the United Sates, the US authorities have been actively hiking interest rates, and there are concerns about the impacts of this, including on the housing market. The number of (seasonally adjusted) housing starts in June announced by the US Department of Commerce on July 19 decreased 2.0% compared to the previous month for its lowest level in 9 months. During this phase, in which it is considered that the slowdown of the housing market will become even stronger in the future, it seems possible that the prices of wood products will also temporarily weaken. In the event of such a situation, at FISCO we think that it may become a factor causing uncertainty about future results for those companies that accumulated stock at high prices.

In the revised Building Energy Efficiency Act enacted in April 2021, newly constructed non-residential buildings (with a floor area of 300 square meters or more) are obligated to comply with the energy saving standards. This obligation to comply includes requirements to introduce outer wall insulating materials, glass with high heat insulation performance, highly efficient air conditioning, and light emitting diode (LED) lighting. Also, an energy saving compliance assessment has become necessary even for medium-sized non-residential buildings, so energy conservation calculations have become essential work in new construction plans.

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The Company has been conducting energy saving calculations for more than 10 years and has a track record of creating many calculation sheets. Based on this wealth of experience, it seems that it will demonstrate its superiority for "Complying with the obligation to explain energy saving performance," and it FISCO, we think that the growth of sales in this segment will continue in the future.

3. Financial position

Total assets were ¥6,823mn, increasing ¥1,719mn from the end of the previous period. This was mainly due to increases of cash and deposits of ¥631mn, accounts receivable - trade of ¥508mn, and accounts receivable arising from outsourced production contracts of ¥317mn. Total liabilities were ¥4,634mn, increasing ¥1,524mn, mainly because accounts payable increased ¥1,050mn, electronically recorded obligations increased ¥269mn, and guarantee deposits received rose ¥54mn. Total net assets were ¥2,189mn, increasing ¥195mn, mainly due to the increase ¥215mn in retained earnings. As a result, the equity ratio was 31.7% on a consolidated basis.

Balance sheet

(¥mn)

	FY3/21	FY3/22	Change	
Current assets	4,321	5,798	1,477	
Fixed assets	782	1,025	242	
Total assets	5,103	6,823	1,719	Cash and deposits +631, Accounts receivable-trade +508, Accounts receivable arising from outsourced production contracts +317
Current liabilities	2,410	3,871	1,461	
Fixed liabilities	700	762	62	
Total liabilities	3,110	4,634	1,524	Accounts payable+1,050, Electronically recorded obligations+269, Guarantee deposits received +54
Capital	390	390	0	
Capital surplus	263	263	0	
Retained earnings	1,308	1,523	215	
Others	29	10	-19	
Net assets	1,993	2,189	195	
Equity ratio	38.1%	31.7%	-	
Net assets per share (¥)	605.05	671.28	66.23	

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

In cash flow conditions, cash flows from operating activities was ¥997mn. The increase factors were that profit before income taxes, etc., increased ¥419mn, depreciation expenses increased ¥95mn, and trade payables increased ¥1,320mn, while the decrease factor was that trade receivables increased ¥831mn. Cash flows used in investing activities was ¥285mn, mainly due to expenditure of ¥100mn on property, plant and equipment to invest in the R&D Center and expenditure through system investment of ¥141mn on intangible assets. Alongside the improvement in the usage rate of domestically produced wood and the increase in inquiries for large scale wooden buildings, the objective of the R&D Center is to conduct basic research into wooden structures, including to strengthen the development of joint parts and to bolster the SE-Structure Method system. The Company is also conducting growth investment into DX that is expected to grow in the future, such as investment to expand the BIM business. Since it was listed, the Company has invested in an in-house customer management system, while it has also invested in a lot of software and has continued to actively invest in systems for DX. Cash flows used in financing activities was ¥80mn due to dividend payments of ¥90mn. The balance of cash and cash equivalents at the end of the period had increased ¥631mn on the end of the previous period to ¥3,537mn, and the Company is cash rich.

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Results trend

Statement of Cash Flows

(¥mn)

	FY3/21	FY3/22	Main revenues and expenditures
Cash flows from operating activities	471	997	Profit before income taxes, etc. +105, Depreciation expenses +41, Trade payables +1,235, trade receivables -55
Cash flows from investment activities	-90	-285	Expenditure to acquire intangible non-current assets -65, Expenditure to acquire property, plant and equipment -89
Cash flows from financing activities	-82	-80	Dividend payments -90
Cash and cash equivalents at the end of the period	2,905	3,537	

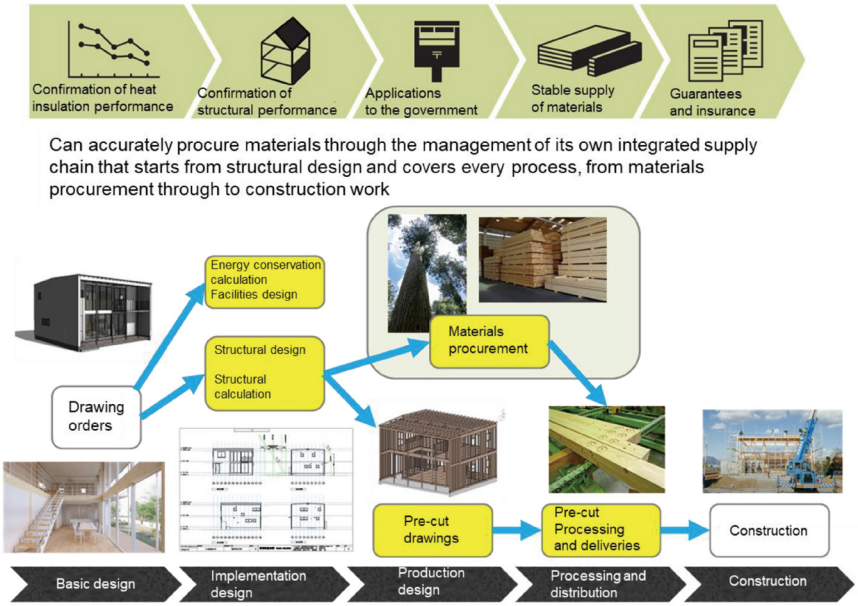
Source: Prepared by FISCO from the Company's financial results

Strengths

Can accurately procure materials through the management of its own integrated supply chain that starts from structural design and covers every process, from materials procurement through to construction work

In order for contractors and housing manufacturers nationwide to solve Japan's societal problems, that Japan's wooden buildings are not earthquake resistant and that its pre-owned wooden-structure houses have no resale value, the Company provides a business platform for wooden building construction companies. It can accurately procure materials through the management of its own integrated supply chain that starts from structural design and covers every process, from materials procurement through to construction work, which is reflected in it achieving a stable supply of wood even during the current wood shock. This proprietary supply chain is perhaps the Company's greatest strength.

The Company's one-stop service and supply chain



Source: Reprinted from the Company's financial results briefing materials

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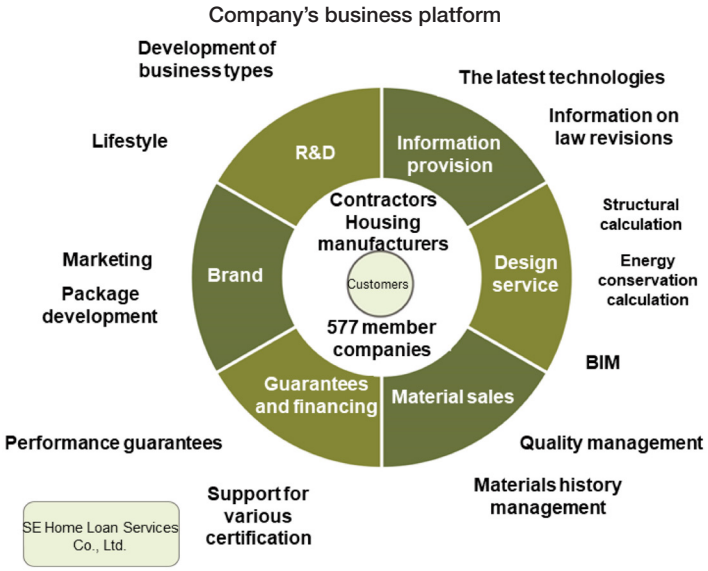
Strengths

Up to FY3/20, the Company focused on actively utilizing its approximately 500 existing registered contractor companies. But as its system and structure is now in place and toward the further spread of wooden housing with high earthquake resistance, it worked to strengthen acquisitions of new contractors and at the end of FY3/21, the number of contractors had increased to 577 companies. At FISCO, we think that it will continue to expand the contractor's network at the same time as further strengthening the business platform that integrates the technologies field of structural calculations by Timber Structure Design and MAKE HOUSE, energy conservation calculations, and BIM; the assets field through SE Home Loan Services; and the lifestyles field through MUJI HOUSE, YADOKARI, Ichinomiya Realize, and marketing by N&S Development.



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1. The SE-Structure Method

The SE-Structure Method utilizes the Company's expertise in large-scale buildings for general housing. Conventionally, the rigid construction method (a method of bonding the respective parts to the framework (parts) with rigid joints) has been the mainstream method for steel-frame and reinforced concrete (RC) structures. The SE-Structure Method is the Company's proprietary construction system for wooden buildings that incorporates this rigid method for wooden housing into a system to construct wooden housing that are safe and convenient to use. This proprietary system constructs wooden buildings that are overwhelmingly strong. Up until now, it has been one of the Company's strengths and intellectual property that other companies cannot duplicate, because it is the result of the Company's accumulation of 20 years of construction experience.

In this construction method, the Company conducts structural calculations for all buildings and uses structurally high quality laminated wood and SE metal materials that it itself developed for the SE joint parts. Through this method, it realizes high earthquake resistance and large spaces through laminated wood and SE metal materials. The system enables integrated management in every step of the process, from the structural calculations through to the supply of parts, the construction and inspection, and the performance guarantee.

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2. Timber Structure Design

In February 2020, the Company entered into a business collaboration with NET EAGLE, which has the leading market share for wooden pre-cut CAD development (more than 60%). This collaboration is for a structural design business in the large-scale wooden (non-residential) field handling construction methods other than the SE-Structure Method. The two companies established Timber Structure Design as a joint venture.

The Act for Promotion of Use of Wood in Public Building was enforced in October 2010. The Act focuses on the target of public buildings, which have a low wooden-building rate, and for which demand can be expected to increase in the future. It calls on the Japanese government to take the lead in promoting the use of wooden materials, and it also encourages independent efforts by local governments and private-sector businesses in accordance with the national policy. The aim is to increase the demand for wooden materials as a whole, including from the ripple effects to homes and other general buildings. On the other hand, the Building Standards Act defines the following buildings for which safety must be confirmed through structural calculations.

The Building Standards Law Article 20 No. 4 Special Exemptions
Sizes of wooden buildings (Number of floors and total floor space)
(1) Wooden buildings, including homes, of three or more floors
(2) Wooden buildings, including homes, with a total floor space of more than 500 m^2
(3) Wooden buildings, including homes, of more than 13 m in height
(4) With eaves of a height of more than 9 m

Buildings to which these regulations apply cannot be constructed unless structural calculations are carried out.

However, the current situation is that there are few structural designers that can handle wooden buildings other than housing, and that information cannot be passed accurately to the manufacturing plants just as it is shown in the structural design drawings. At FISCO, we think that outsourcing will become the mainstream because in companies such as major construction companies and housing manufacturers, a movement to secure structural designers can be seen, but the costs for this will increase. When carrying out structural design, a major advantage for the Group's clients is that consulting on costs and on construction work can be provided at the same time. Timber Structure Design, which is a joint venture with NET EAGLE that has the largest market share for wooden-structure pre-cut CAD development, handles structural designs and production designs of non-residential wooden buildings other than those that use the SE-Structure Method, and it has significant growth potential. By providing optimized product designs as pre-cut data linked to the structural design, Timber Structure Design is the only company providing a one-stop service for a wide variety of buildings, and this would seem to be its considerable strength.

Also, in October 2020 Timber Structure Design started providing Japan's first matching platform business to match general contractors and design offices in the large-scale wooden buildings market to pre-cut plants. It is providing structural design support and processing support, in addition to establishing a production system through forming a network of pre-cut plants. At the same time, through conducting advertising activities to general contractors and design offices, it is providing a one-stop service, from structural design through to production design. This service made a slow start because of the impact of COVID-19 pandemic that began immediately after its launch, but economic activities are normalizing and inquiries are also currently increasing, so at FISCO we think that it can be expected to grow rapidly.

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3. BIM business (MAKE HOUSE)

MAKE HOUSE, which was made a subsidiary in October 2021, has opened MAKE HOUSE BIM BASE, the BIM/CAD center that will serve as a business development base toward the growth of the BIM business in the wooden buildings field. Many countries around the world have progressed efforts to comply with the obligation to introduce BIM, including that in the United States it had been introduced by approximately 70% of construction companies by 2012, and in Singapore it had been introduced into around 80% of the buildings requiring an application for construction approval by 2015. In Japan, BIM is being introduced mainly by the major construction companies, but introductions of BIM are not being progressed in the wooden buildings field.

In 2021 under the revised Building Energy Efficiency Act, the "obligation to explain a building's energy saving performance" was started, while in 2025, the scope of the Building Standards Law Article 20 No. 4 Special Exemptions is expected to be reduced, and the Ministry of Land, Infrastructure, Transport and Tourism has announced that all newly constructed buildings will be obligated to comply with the energy saving standards. For detached houses as well, at the same time as the obligatory inspection, it is possible that it will be necessary to conduct a structural inspection at the time of applying for approval even for small-scale two-floor wooden buildings. Currently, detached houses built of wood that satisfy the requirements, including having 2 or fewer floors and a floor area of 500m^2 or less, are exempted from the structural inspection in the construction approval. But by reducing the scope of No. 4 Special Exemptions, the special handing of wooden buildings will be revised and they will be treated the same as buildings with other structural forms.

The No.4 Special Exemptions began in 1983, but in 2006, it became apparent that their designs of built-for-sale homes to which No.4 Special Exemptions were applied were inappropriate and that many houses had insufficient structural strength. In 2010 based on the confusion at construction sites, it was announced that the No.4 Special Exemptions would be continued. Until recently, the argument that they should be abolished strengthened every time a problem occurred with them, but even so they were never abolished. However, it is finally highly likely that the scope of the No.4 Special Exemptions will be reduced in 2025. The Company has continued to grow through conducting initiatives in response to government policies ahead of others, and at FISCO, we think that its growth will be further accelerated by the reduction in scope of the Building Standards Law Article 20 No. 4 Special Exemptions. In June 2022, the Company acquired 49% of the shares of MAKE HOUSE owned by PaperlessStudio and made it a wholly owned subsidiary. Making it a wholly owned subsidiary will enable the Company to respond more quickly in order to actively launch new businesses and conduct investment toward growth in the future.

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Strengths

Reduction of No.4 Special Exemptions

【Current law】

*From housing start statistics from the Ministry of Land, Infrastructure, Transport and Tourism

No. of floors	Total floor area of less than 200 ㎡	Total floor area of 200 ㎡ to 500 ㎡	Total floor area of more than 500 ㎡	2021building starts	Ratio
3rd floor	Structural calculation			30,213 buildings	8%
2nd floor	Assessment exempted (Special Exemptions)			315,639 buildings	80%
1st floor				50,238 buildings	13%
				396,090 buildings	

【Revised law】

No. of floors	Total floor area of less than 200 ㎡	Total floor area of 200 ㎡ to 500 ㎡	Total floor area of more than 500 ㎡	2021building starts	比率
3rd floor	Structural calculation			30,213 buildings	8%
2nd floor	Wall quantity calculations or structural calculations			315,639 buildings	80%
1st floor	Assessment exempted (Special Exemptions)			50,238 buildings	13%
				396,090 buildings	

Source: Reprinted from the Company's financial results briefing materials

4. Lifestyle

YADOKARI is a company that increases the choices for ways of living, including through its Minimal Life, Tiny House, and Multi-site Housing, and it has announced that it has defined a new affluence from the viewpoint of "homes" and it is proposing new lifestyles. For the Tiny Houses conceived by YADOKARI, it is developing products that utilize the Company's SE-Structure Method. In addition, in a situation of the transition to teleworking and the creation of new ways of living, we at FISCO think new ideas with YADOKARI will emerge from the perspective of ways of living matching lifestyles.

Ichinomiya Realize is a town-planning company established in August 2016 through investment by private-sector companies, including the Company, for regional revitalization in Ichinomiya Town, Chosei District, which is located at the southernmost tip of Kujuukurihama in eastern Chiba Prefecture. It is attracting attention for its regional revitalization alongside new ways of living, including by renovating wooden-construction vacant stores and working on shared offices equipped with communication functions.

MUJI HOUSE is building the Younoie model home, which is a MUJI home, in the Isumi Forest Living project in Isumi City, Chiba Prefecture. Also, at the MUJI Tokyo Ariake Center, a complete Younoie house has been built in the store. As they are single-story buildings they do not require corridors, a feature is that they can effectively utilize limited space and are constructed using the SE-Structure Method. In addition to homes used as part of a double-base or a villa, 20 buildings will be constructed as accommodation facilities, so we at FISCO think it is possible that this will lead to demand for facilities in the new ways of living in the COVID-19 pandemic.

N&S Development, a joint venture with Sanu, will conduct development and management in the future of SANU 2nd Home, which is Sanu's fixed-fee subscription service "to provide a second home in order to live in nature." In the facilities being developed by Sanu as well, the aim is to promote the spread of wooden buildings toward realizing a decarbonized society by providing lodging facilities that utilize the SE-Structure Method.

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Business Outlook

In FY3/23, the final year of the medium-term management plan, business is growing through conducting initiatives in response to government policies ahead of others

1. FY3/23 consolidated results forecasts

For the FY3/23 results, the Company is forecasting net sales of ¥9,734mn (up 13.6% YoY), gross profit of ¥2,384mn (up 16.2%), operating income of ¥429mn (up 8.4%), ordinary income of ¥461mn (up 10.0%), and profit attributable to owners of parent of ¥326mn (up 7.0%). Against the backdrop of the impact on the economy of COVID-19 and also the global imbalance between the demand and supply of wood resources in the housing industry, a situation has continued of rising wood prices and confusion in the supply structure (the wood shock), which is a cause for concern and we cannot be optimistic about this situation. However, for the laminated wood used in the SE-Structure Method, the Company uses products that are all manufactured by manufacturers in Japan, and continuing in FY3/23 as well, it plans to further strengthen through collaborations with laminated wood manufacturers. Also, about 30% of its raw materials are domestically produced wood, and the technical evaluations of the cedar materials and other materials used in the SE-Structure Method had already been acquired by September 2020, and it is conducting preparations to increases the domestically produced wood ratio.

In this sort of situation, in FY3/23, the final fiscal year of the medium-term management plan, it is targeting net sales of ¥10bn. The FY3/23 net sales forecast is ¥9,734mn, which is slightly conservative compared to the medium-term management plan's target of ¥10bn. However, business is expected to grow through conducting initiatives in response to government policies ahead of others. The Company tends to set forecasts at the beginning of the period that are conservative and that it is highly likely to achieve, so at FISCO, we think it is also highly likely to achieve the final targets in the medium-term management plan.

FY3/23 consolidated results forecasts

(¥mn)

	FY3/22 Results	FY3/23		
		Forecasts	Change	Increase/ decrease rate
Net sales	8,571	9,734	1,163	13.6%
Gross profit	2,051	2,384	333	16.2%
SG&A expenses	1,655	1,955	300	18.1%
Operating income	396	429	33	8.4%
Ordinary income	419	461	42	10.0%
Profit attributable to owners of parent	305	326	21	7.0%
Annual dividend (¥)	37	40	-	-

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

In the residential field, the net sales forecast is ¥8,091mn (up 11.8% YoY). This will be from the expected effects of strengthening the network of registered contractors through acquiring newly registered contractors. In the large scale wooden buildings (non-residential) field, it will strengthen the production structure through expanding the network of pre-cut factories through Timber Structure Design, while it will also provide a one-stop service for large-scale buildings compatible with construction methods other than the SE-Structure Method, and therefore the net sales forecast is ¥1,128mn (up 30.2%). Moreover, it will strengthen marketing activities to improve name awareness and for business expansion.

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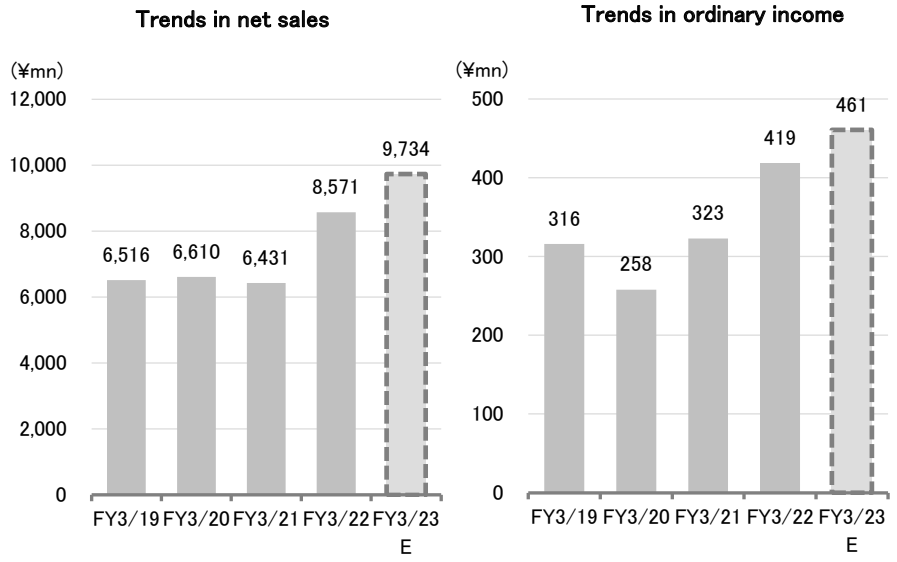
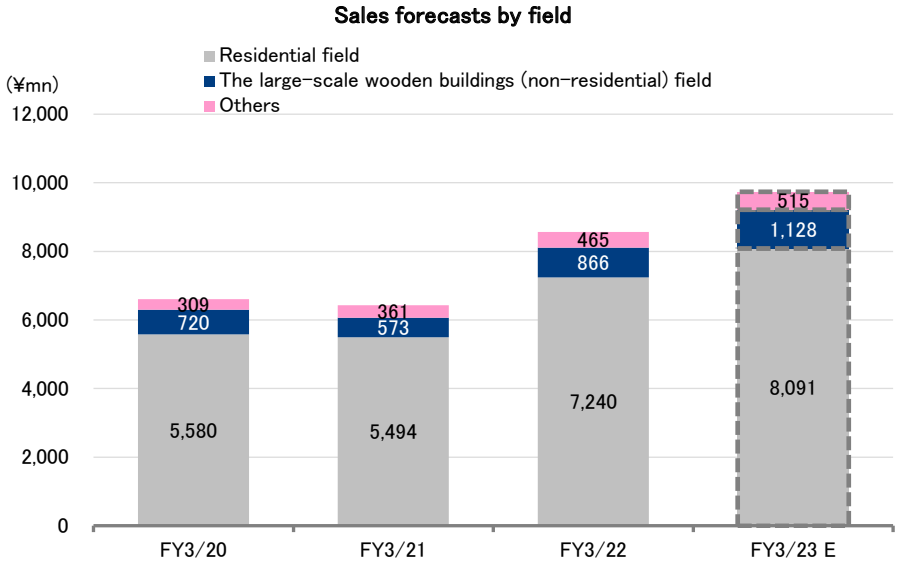


Source: Prepared by FISCO from the Company's financial results and financial briefing materials

In the others field, the net sales forecast is ¥515mn (up 10.7% YoY). As support for energy saving in homes, it will ship 3,000 primary energy calculations. MAKE HOUSE will effectively utilize the BIM Center as a new base in order to accelerate the BIM business, while at the same time, it will strengthen the BIM model production structure and progress developments of BIM solutions for wooden buildings by actively recruiting human resources. In the technologies field as well, the Company plans to actively utilize the Timber Structure Lab. and create products for five-floor buildings using the SE-Structure Method and contribute to improving the usage rate of domestically produced wood.



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

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2. Progress made in the medium-term management plan

The initiatives the Company has already completed are described below.

(1) Establish a sales structure toward increasing newly registered contractors in the residential field
(2) Establish a structural design and wood processing platform, including the establishment of Timber Structure Design, and expand partner plants
(3) Establish a business model for an environmental design mass production structure, including the energy conservation calculation service
(4) Establish the basic requirements toward the arrival of the BIM design era
(5) Establish an in-company management system to secure the operating income margin

The Company plans to continue to invest in the following items in FY3/23 as well.

(1) Greatly increase the number of design-related human resources in Timber Structure Design and the non-residential field
(2) Invest in a structural calculation system for conventional construction methods other than the SE-Structure Method, the main product, and the CLT construction method
(3) Expand the infrastructure for the use of BIM, centered on MAKE HOUSE
(4) Expand the use of the Timber Structure Lab., mainly focused on wooden-structure basic research

3.The market environment and the growth strategy for the future

As previously explained, the revised Building Standards Law Article 20 No. 4 Special Exemptions is greatly changing the market environment. (1) Due to the reduction of No.4 Special Exemptions, in 2025 it will be obligatory to obtain construction approval even for two-floor wooden-structure buildings, so it seems likely that the spread of wooden-structure structural calculations will accelerate as a movement in advance of its implementation. Also, (2) for "the obligation to comply with the energy saving standards," so far the obligation has only been to provide an explanation, but in 2025 it will become obligatory for all homes to comply with the energy saving standards, for which energy conservation calculations will be essential. Therefore, each of the Company's business departments seem likely to grow due to the needs of the era, including for energy conservation calculations, the promotion of wooden structures, structural cautions through the reduction in wooden-structure Special Exemptions, and earthquake resistance simulations.

In addition, creating new markets, including the second house and the lodging facilities ordering businesses by MUJI HOUSE, the regional revitalization and glamping business by Ichinomiya Realize, and moreover the second house business of N&S Development, which a joint venture with Sanu, is likely to increase the name awareness of the SE-Structure Method.

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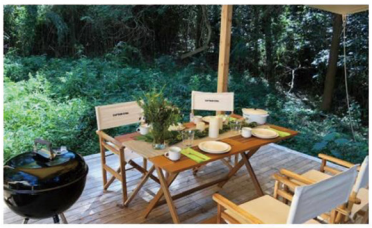
Creation of new markets (the second house business)

Start of the second house and lodging facilities ordering businesses by MUJI HOUSE

Regional revitalization and glamping business by Ichinomiya Realize



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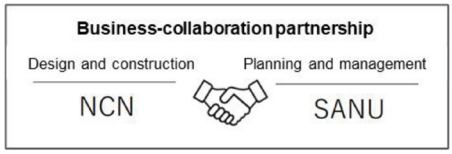
Second house business through a collaboration with Sanu



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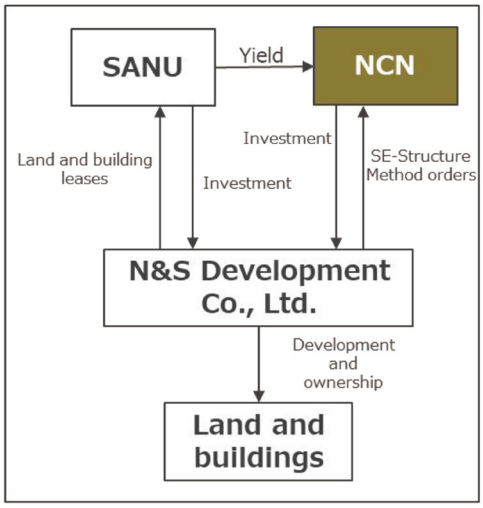

Source: Reprinted from the Company's financial results briefing materials

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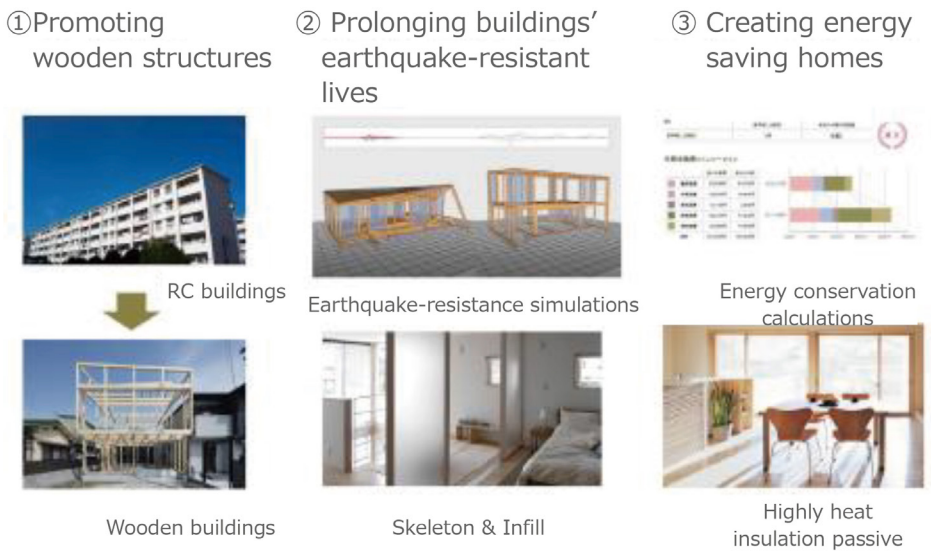
(1) Initiatives for a decarbonized society

Since the enactment in 2010 of the Act for Promotion of Use of Wood in Public Buildings, based on this Act, the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Land, Infrastructure, Transport and Tourism have been working on the use of wood in public buildings. The percentage of the area of public buildings that uses wood increased from 8.3% at the time the Act was enacted to 13.8% in 2019. The wooden-structure, non-residential building market is expanding, and in this Act, some of the laws relating to the promotion of the use of wood in public buildings were revised and in October 2021, the revised Act on Promoting the Use of Wood in Buildings to Contribute to Realizing a Decarbonized Society was enacted. Through this revision, the buildings targeted by the Act have been expanded from public buildings to buildings in general. So going forward, it is highly likely that the wooden-structure rate in the non-residential field and of medium- to high-rise buildings will increase. According to the government's market-areas roadmap to create a new wooden buildings market, etc., to realize sustainable forest resources and a recycling economy, by 2030 the scale of the market for large-scale buildings that utilize wood (*excluding low-rise homes) is forecast to rise to ¥1tn.

The Company provides wooden homes with high asset value through its SE-Structure Method with structural calculations of the same precision as for steel frames. However, photosynthesizing, trees absorb carbon dioxide (CO_2), which is a greenhouse gas, and carbon accumulates in wood fiber.

Through the increase in wooden housing, the amount of CO_2 stored increases accordingly and CO_2 is removed from the atmosphere, so changing from RC structures to wooden structures has the effect of reducing CO_2 by a corresponding amount. In addition to earthquake-resistance simulations that prolong a building's earthquake-resistant life and Skeleton & Infill tailored to people's lifestyles, all of the Company's businesses are indispensable for reducing CO_2, including its energy conservation calculations and the creation of energy-saving homes that are highly heat insulation passive.

The Company's initiatives for a decarbonized society



Source: The Company's results supplemental briefing materials

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Corporate Social Responsibility (CSR)

17 Sustainable Development Goals (SDGs) have been defined with 2030 as the deadline to achieve them. Among them, the Company has indicated its respective themes and its plans for measures to achieve the goals through its business. Ever since its establishment with the aims of spreading safe and secure wooden structures in Japan and creating a framework to provide homes with asset value, there has been no change to its corporate philosophy of "spreading around the world wooden homes that can be lived in safely."

(1) The Company's goal is to make inclusive, safe, strong, and sustainable cities and residential communities based on "11. Sustainable Cities and Communities," which is the SDG defined on the theme of increasing the earthquake-resistance rate of wooden buildings. Another goal is to ensure a pattern of sustainable consumption and production based on "12. Responsible Consumption and Production." The Company's specific measures for these goals include promoting the wooden-construction, earthquake-resistant design business and working to achieve 100% earthquake-resistant housing.

(2) On the theme of raising the rate of the use of wooden materials, based on "9. Industry, Innovation and Infrastructure," the Company's goal is to provide a strong infrastructure and promote the transition to inclusive and sustainable consulting, while also aiming to expand technological innovation. Based on "15. Life on Land," it aims to protect ecosystems on land, to promote their recovery and sustainable use, to sustainably manage forests, to deal with desertification, to identify the elements of and reverse land degradation, and to prevent the loss of biodiversity. Its goal is also "12. Responsible Consumption and Production." Its specific measures include establishing Timber Structure Design and utilizing CLT.

(3) On the theme of spreading the use of energy-saving housing, the Company's goals are to secure access to sustainable and modern energy that is affordable and reliable for everyone based on "7. Affordable and Clean Energy," and also to contribute to realizing "11. Sustainable Cities and Communities." Its specific measures include conducting surveys of actual energy-saving conditions.

(4) For the theme of activating local communities from population concentrations in metropolitan areas, the Company's goal is to realize "11. Sustainable Cities and Communities." Its specific measures include the capital and business collaboration with YADOKARI and the Forest Living project.

Also, through the Isumi Forest Living, opened in Isumi City, Chiba Prefecture, the Company is utilizing forest resources and cooperating with the local community, conducting management for people to enjoy the forest that is growing naturally, and supplying wooden housing. In addition, it is providing various proposals not limited to housing. It is supporting and participating in this joint project as a company that is conducting activities that will lead to the realization of affluent lives in Japan in the future by widening the possibilities for wood for regional revitalization. The Isumi Forest Living project provides facilities that utilize the resources dormant in the area that enable people to experience new modes of accommodation. The Company is cooperating with Isumi City, Chiba Prefecture, and the local tourism bureau to create a base for regional activation through public sector-private sector collaborations. The base was opened in September 2019.

A model house of the Younoie MUJI home has been constructed and can be visited. Also, in the glamping camp site, site facilities have been provided including an outdoor deck with excellent earthquake resistance constructed using the SE-Structure Method. This facility is so popular in the glamping site to the extent that reservations are difficult to obtain.

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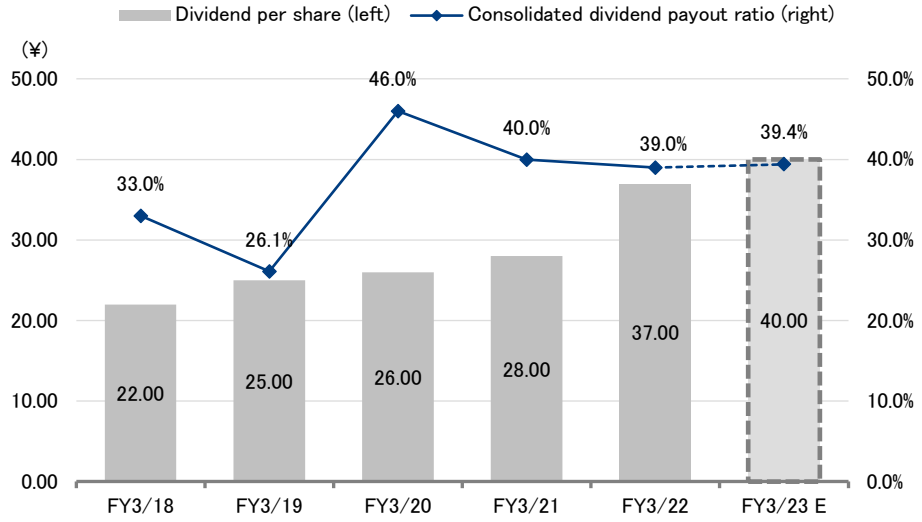
Shareholder return policy

The Company considers returning profits to shareholders to be one of its most important management issues. To decide the payout ratio, the Company takes internal reserves into account to implement the business plan and expand the business scale (including for funds for the R&D required for growth and development and for capital investment). Its basic policy is to continuously and stably pay dividends targeting an annual dividend payout ratio of 40% on a consolidated results basis while taking into consideration the profit level and the cash flow conditions in each fiscal period, and also based on consolidated results. In FY3/23, the Company plans to pay a dividend per share of ¥40, an increase of ¥3 compared to the previous fiscal year, for a dividend payout ratio of 39.4%.

Trends in the dividend per share and the dividend payout ratio



Note: Conducted a 100-for-1 stock split of ordinary shares on December 4, 2018
Source: Prepared by FISCO from the Company's financial results

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