

New Constructor's Network Co., Ltd.

7057

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<https://www.fisco.co.jp>

■ Index

■ Summary	01
1. Overview of FY3/24 results	01
2. FY3/25 results forecasts	02
3. Progress on the medium-term management plan and the growth strategy for the future	02
■ Company profile	03
■ Business overview	06
1. The wooden-construction, earthquake-resistant design business	06
2. Others	07
■ Results trend	09
1. Overview of FY3/24 results	09
2. Business segments and segment net sales	10
3. Financial position	14
■ Strengths	16
1. The SE-Structure Method	17
2. Timber Structure Design	17
3. BIM business (MAKE HOUSE)	18
4. The large-scale wooden buildings (Suihoo Fabricating Company)	18
5. Lifestyle	19
■ Business outlook	19
1. FY3/25 results forecasts	19
2. Progress on the medium-term management plan and the growth strategy for the future	21
■ Corporate Social Responsibility (CSR)	23
■ Shareholder return policy	24

Summary

Large-scale wooden buildings (non-residential) field steadily expanding scope of business

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, mainly building contractors. The Company is also expanding the scope of its business by applying its expertise in earthquake-resistant designs for wooden buildings to non-residential, large-scale wooden buildings such as kindergartens, elder care facilities, retail stores, and offices.

1. Overview of FY3/24 results

For the FY3/24 results, net sales were ¥7,998mn (down 13.4% year on year (YoY)), gross profit was ¥2,204mn (down 6.5%), operating income was ¥83mn (down 80.3%), ordinary income was ¥47mn (down 89.5%), and profit attributable to owners of parent was ¥0mn (down 99.9%). Net sales in the mainstay residential field dropped 31.9% YoY, despite implementing sales activities aimed at expansion of registered SE-structure contractors and successfully adding 28 new companies and reaching a total of 606 companies, because of a decline in orders on weaker results at a major housing manufacturer that is a high-volume customer and a decline in the unit prices of key materials reflected in the unit sales prices as markets settled down amid recovery from the materials price upturn (wood shock). Although the large-scale wooden buildings (non-residential) field was vibrant and achieved a 61.7% rise in net sales, overall net sales declined. In terms of profit, SG&A expenses climbed due to carrying out extensive online marketing activities aimed at capturing increased structural calculation needs from 2025 following the revision of the Building Standards Act. Additionally, the Company incurred ¥19mn in operating losses from the three consolidated subsidiaries (MAKE HOUSE Co., Ltd., Timber Structure Design Co., Ltd., and Suihoo Fabricating Company), ¥52mn in non-operating losses due to equity in losses of affiliates and elimination of unrealized profits at two equity-method affiliates (MUJI HOUSE Co., Ltd. and N&S Development Co., Ltd.), and ¥27mn in equity in losses of affiliates on a standalone basis. These factors resulted in the steep profit decline. MUJI HOUSE posted a loss because detached house sales were negatively impacted by the wood shock from 2022 to 2023 when orders received became unprofitable.

Summary

2. FY3/25 results forecasts

For the FY3/25 results, the Company is forecasting net sales of ¥8,976mn (up 12.2% YoY), operating income of ¥223mn (up 168.6%), ordinary income of ¥285mn (up 497.0%), and profit attributable to owners of parent of ¥208mn (¥0mn in FY3/24). In FY3/25, the second year of the three-year medium-term management plan, even with the environmental downside from the decline in housing demand, it is likely to expand business by responding to societal requests, such as green reforms aimed at decarbonization and required compliance with energy-saving standards from 2025. Amid these positive trends, the Company hopes to achieve growth by bolstering standards for simplified designs in wooden housing for the residential field and promoting business that leverages technologies and know-how cultivated up to now to address growing non-residential needs in the large-scale wooden buildings (non-residential) field. In net sales, it expects ¥5,531mn in the residential field (up 13.2% YoY). It intends to bolster online marketing that highlights the advantages of the SE-Structure Method, which will expand due to the revision of the Building Standards Act, and increase SE-Structure Method shipments to 1,035 homes (up 14.1%). It projects ¥3,020mn in the large-scale wooden buildings (non-residential) field (up 9.4%). In addition to increasing sales at subsidiaries, the Company will expand its business by strengthening marketing activities. It also forecasts ¥424mn in the others field (up 21.3%) with boosts from an anticipated rise in residential energy conservation calculation shipments ahead of obligatory energy conservation calculations in 2025 and reinforcement of non-residential energy-saving certification (*ZEB conversion) assistance. In terms of profit, it expects significant gains on the positive effect of higher sales and achieving profitability at subsidiaries.

* ZEB (Net Zero Energy Building): An indicator that targets zero primary energy consumption by a building over one year. The goal of ZEB conversion is to achieve substantial energy conservation while maintaining the quality of the indoor environment by installing highly efficient equipment and only using renewable energy such as solar power to supply the energy consumed. Projects approved as ZEB conversion subsidized projects receive subsidies from the Ministry of the Environment and Ministry of Economy, Trade and Industry.

3. Progress on the medium-term management plan and the growth strategy for the future

In FY3/24, the first fiscal year of the medium-term management plan, results fell short of the plan by a significant margin, with ¥7,998mn in net sales versus the ¥9,055mn target (88.3% attainment rate) and ¥83mn in operating income versus ¥233mn (35.7%). The Company disclosed updates to the medium-term management plan mainly due to a significant shortfall in residential field progress versus the plan under pressure from sluggishness in new housing starts volume.

Due to the revised (reduced) Building Standards Act Article 20 No. 4 Special Exemptions, in April 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, for “the obligation to comply with the energy-saving standards,” so far the obligation has only been to provide an explanation, but in April 2025 it will become obligatory for all homes to comply with the energy-saving standards, for which energy conservation calculations will be essential. Against this backdrop, the Company’s energy conservation calculations, structural calculations and seismic simulations are experiencing a growing growth environment.

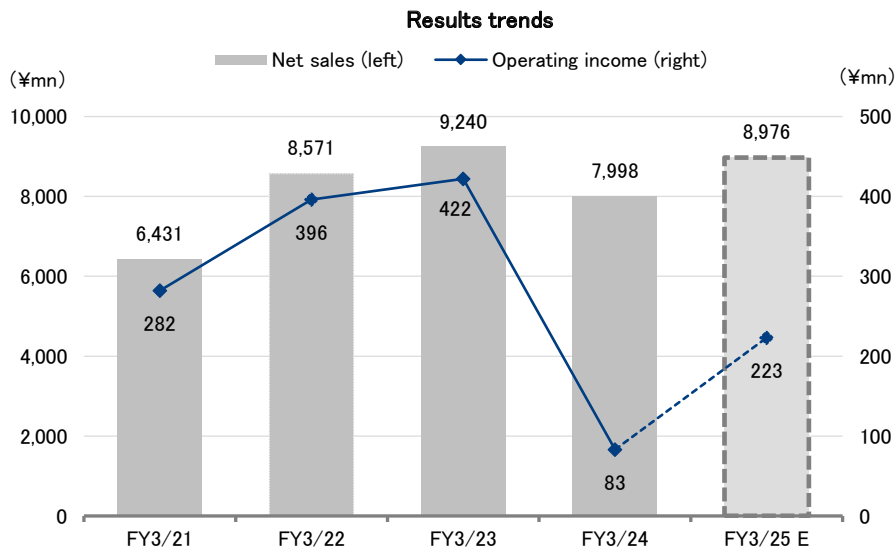
Growth strategies for the future are as follows. (1) Expand market share in the residential field by increasing the number of registered SE-structure contractors and grow sales in the non-residential field. (2) Provide its own unique one-stop service relating to large-scale wooden buildings in the non-residential field by harnessing its structural calculation and energy conservation calculation expertise and materials supply capabilities, plus subsidiary Suihoo Fabricating Company’s capabilities in specialized processing and construction for large-scale wooden buildings. (3) Respond to growing demand for structural calculations and energy conservation calculations as a result of the revision of the Building Standards Act in 2025. (4) Provide support for making non-residential buildings more energy efficient (e.g., support for obtaining ZEB status).

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Summary

Key Points

- Net sales and profit declined in FY3/24 because of the difficult market environment in the residential field
- Forecasting net sales and profit increases in FY3/25 driven by leveraging a positive market situation with the revision of the Building Standards Act
- Steady expansion of large-scale wooden buildings (non-residential) field expected as one-stop service delivery structure is now in place



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

Company profile

Strengthening business structure and expanding scope of business in non-residential field, where buildings are becoming larger and more specialized

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 Suihoo Fabricating Company, 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.

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Company profile

In terms of technology, the Company acquired shares in MAKE HOUSE from the joint venture partner to make it a wholly owned subsidiary, further strengthening its BIM*1 business with the wooden construction industry. The Ministry of Land, Infrastructure, Transport and Tourism (MLIT) started applying BIM in principle to all public works projects (except small-scale projects) in April 2023 and the Company strengthened its BIM support services for architectural design offices and small to mid-size general contractors dealing with non-residential properties. It is also making steady progress in expanding the scope of business in the large-scale wooden buildings (non-residential) field by making Suihoo Fabricating Company (with strengths in large section laminated timber*2 processing, specialized wood processing, and construction of large wooden buildings) a consolidated subsidiary. In May 2023, the Company obtained a structural assessment from The Building Center of Japan for its SE-Structure Method adapted for five-story wooden buildings. The Company harnessed its research facility Timber Structure Lab. to modify its SE-Structure Method, whose previous specifications could not be used for five-story buildings.

*1 BIM (Building Information Modeling) refers to a system to construct a 3D building information model on a computer with attribute information on design, construction, and management and maintenance of the building. BIM Solutions therefore enable the use of attribute information required for preparing various drawings needed for construction.

*2 Laminated wood: wood material made by reconstructing panels bonded with adhesive

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. In August 2016, Ichinomiya Realize was established for regional revitalization as a town-development company through funding by Ichinomiya Town, Chosei District, Chiba Prefecture, the Company, and other private-sector companies. In April 2022, the Company established N&S Development jointly with Sanu Inc. to develop the SANU 2nd Home 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. In April 2024, a new product incorporating the SE construction method, "SANU Apartment" (a lodging building set up at Sea SANU), was completed in Ichinomiya Town, Chiba Prefecture, and has been in operation since then.

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 current CEO & President, Mr. Ikuo Takusari, was formerly employed at 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 catastrophic damage to 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.

Based on this experience, 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 construction experience and many major housing manufacturers ask for OEM supply of standardized housing. 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 with wooden housing (namely, weaknesses of the practice of not performing structural calculations and rapidly declining property values.)

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Company profile

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 <2768>) 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. <7453>
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 Started 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, Environmental Design 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
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 an equity method affiliate) 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
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 Ward, 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 Standard 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)
October 2022	Acquired the shares of Suihoo Fabricating Company (made it a subsidiary)
January 2023	Relocated site of the Head Office to Chiyoda Ward, Tokyo
May 2023	MUJI HOUSE and the Ministry of Agriculture, Forestry, and Fisheries concluded an agreement regarding greater use of wood to promote use of wood in buildings Obtained structural assessment for adapting SE-Structure Method to five-story wooden buildings
May 2024	Jointly obtained ZEB certification for large-scale wooden buildings (2,000 m ² or larger) with MUJI HOUSE

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

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Business overview

Provides wooden housing with high asset value through its SE-Structure Method

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

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 roughly 600 nationally registered SE-structure contractors (building contractors).

(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 robust earthquake resistance and large spaces. The wood used in the SE-Structure Method for the structural framework is custom laminated wood with high quality and consistent strength. 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 applies a metallic material called "pedestal metallic material," which directly connects the foundation and the pillars, 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 RC structures, and as all properties are sold with a guarantee, houses with high asset value are provided. Up until now, 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 SE-Structure Method, the Company is aiming to strengthen acquisitions of registered contractors for its network. It had 606 registered contractors in FY3/24 and targeting an increase of 36 companies in FY3/25, recording a stable upward trend in membership revenue. "Thick wooden-frame house" is an umbrella term for houses with high asset value built using the SE-Structure Method by thick wooden-frame house premium partners (selected contractors among the Company's 606 registered contractors). The Company is promoting DX to harness its partnership with registered contractors, including a digital showroom on YouTube and communicating with consumers on Instagram.

Business overview

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 equity method affiliate 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 promoting 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 m². 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 RC structures and it is able to keep down on construction costs and the construction period.

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. In October 2020, it started providing Japan's first large-scale wooden building matching platform business to match general contractors and design offices 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 structures, the CLT*2 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 CLT (Cross Laminated Timber): thick laminated panels bonded together in layers so that each fiber direction 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.

Business overview

(1) Energy conservation calculation service, etc.

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 accordance with the Energy Conservation Standards for Houses and Buildings revised in 2013 and the enforcement of the revised Building Energy Efficiency Act from 2020. (In the revised Building Energy Efficiency Act, an explanation of whether or not the building complies with energy-saving standards has been made obligatory from April 2021.)

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 construct 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 other words, “energy conservation calculations” allow for a reading from design drawings in advance to ascertain how much heating and cooling load the building will require before it is built. 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. Additionally, it started a service to support applications to acquire ZEB certification for wooden non-residential buildings.

(2) BIM (Building Information Modeling) business

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 co.,Ltd., making it a wholly owned subsidiary.

MAKE HOUSE promotes improvements in work efficiency and the introduction of IT utilizing BIM. In addition to BIM consulting for construction businesses, it conducts a BIM projects consignment business as a service that directly supports 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 calculations of 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.

Business overview

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

SE Home Loan Services, an equity-method affiliate, handles Flat 35 loans as an agent of Credit Saison Co., Ltd. <8253> and supports funding for home buyers who place orders with registered contractors. Flat 35 lowers the initial interest rate for high-quality homes with superior earthquake resistance and energy-saving performance, and is provided as a home loan that can provide support for purchasing the Company's high-quality homes while also offering peace of mind. In July 2023, the Company transferred 60% of its 100% shareholding in SE Home Loan Services to Public Holdings Co., Ltd., also a Credit Saison Flat 35 agency, which runs a home loan financial agency business including bank agency and insurances services (including fire insurance). As a result of the transfer, SE Home Loan Services will operate as a joint venture between the Company and Public Holdings.

Results trend

Residential field struggling, but large-scale wooden buildings (non-residential) delivered robust 61.7% YoY growth

1. Overview of FY3/24 results

For the FY3/24 results, net sales were ¥7,998mn (down 13.4% YoY), gross profit was ¥2,204mn (down 6.5%), operating income was ¥83mn (down 80.3%), ordinary income was ¥47mn (down 89.5%), and profit attributable to owners of parent was ¥0mn (down 99.9%). In the housing industry, home selling prices have risen against a backdrop of increases in building material prices. According to the housing starts statistics survey report for fiscal 2023 announced by the MLIT, new housing starts dropped 7.0% YoY to 800,176 units and owner-occupied new housing starts were down 11.5% to 219,622 units. These levels continued declining. Within this context, net sales in the mainstay residential field dropped 31.9% YoY, despite implementing sales activities aimed at expansion of registered SE-structure contractors and successfully adding 28 new companies and reaching a total of 606 companies, because of a decline in orders on weaker results at a major housing manufacturer that is a high-volume customer and a decline in the unit prices of key materials reflected in the unit sales prices as markets settled down amid recovery from the materials price upturn (wood shock). Although the large-scale wooden buildings (non-residential) field was vibrant and achieved a 61.7% rise in net sales, overall net sales declined. In terms of profit, SG&A expenses climbed due to carrying out extensive online marketing activities aimed at capturing increased structural calculation needs from 2025 following the revision of the Building Standards Act. Additionally, the Company incurred ¥19mn in operating losses from the three consolidated subsidiaries (MAKE HOUSE, Timber Structure Design, and Suihoo Fabricating Company), ¥52mn in non-operating losses due to equity in losses of affiliates and elimination of unrealized profits at two equity-method affiliates (MUJI HOUSE and N&S Development), and ¥27mn in equity in losses of affiliates on a standalone basis. These factors resulted in the steep profit decline. MUJI HOUSE posted a loss because detached house sales were negatively impacted by the wood shock from 2022 when orders received became unprofitable.

Results trend

FY3/24 consolidated results

	FY3/23 Results	FY3/24 Results	YoY	
			Change	Increase/ decrease rate
Net sales	9,240	7,998	-1,241	-13.4%
Gross profit	2,358	2,204	-154	-6.5%
Operating income	422	83	-339	-80.3%
Ordinary income	455	47	-407	-89.5%
Profit attributable to owners of parent	302	0	-302	-99.9%

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

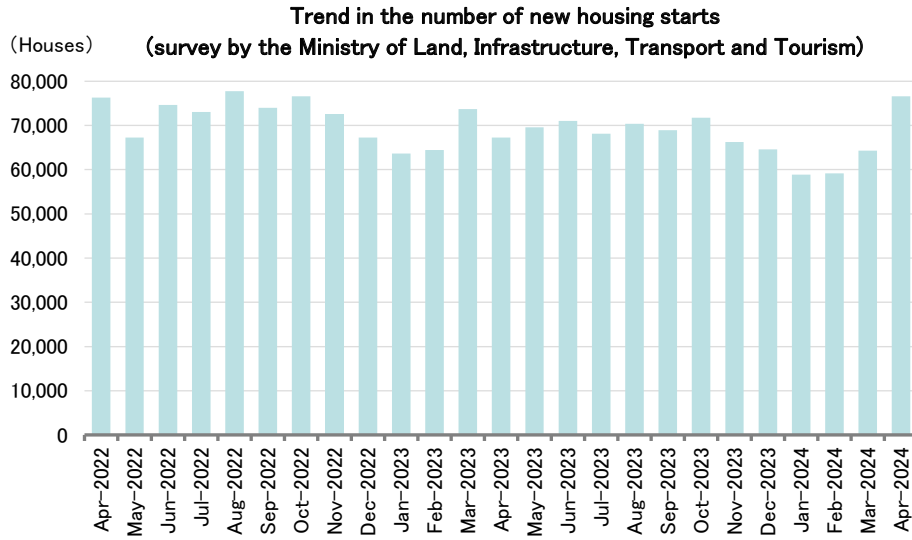
2. Business segments and segment net sales

Looking at the housing market environment in FY3/24, new housing starts were down 7.0% YoY. While there was a temporary recovery trend on a monthly basis, housing starts continued declining for the fifth consecutive year. For owner-occupied houses, the decline in new housing starts stood out at an 11.5% drop, the second straight year with a double-digit setback, making for a difficult market environment. On a monthly basis, however, new housing starts rose 13.9% YoY to 76,583 homes in April 2024, the first gain in 11 months, and increased 19.2% from the previous month. Despite the continuation of the downward trend in owner-occupied housing starts, the decline margin narrowed and there were signs of recovery.

Turning to large-scale wooden buildings that the Company supplies, the government's actions for attaining a decarbonized society have been positive for this business. The revised Act for Promotion of Use of Wood in Buildings to Contribute to Realizing a Decarbonized Society was enacted in October 2021. In June 2022, based on a law that revises part of the Act, the construction of large-scale wooden buildings using large section laminated wood and partially wooden buildings within zoned sections was permitted. The scope of business has expanded, because the Company prepared its infrastructure by establishing Timber Structure Design, which engages in structural calculations and production design of non-residential wooden buildings other than those that use the SE-Structure Method and by making Suihoo Fabricating Company (with strengths in large section glued laminated timber processing and construction capabilities required for construction of large wooden buildings) a consolidated subsidiary. As new lifestyles take hold, the Company also sees potential for demand growth in high value-added homes like vacation homes built by the SE-Structure Method, which are fully customized, and pioneering the second house market, which proposes new ways of living.

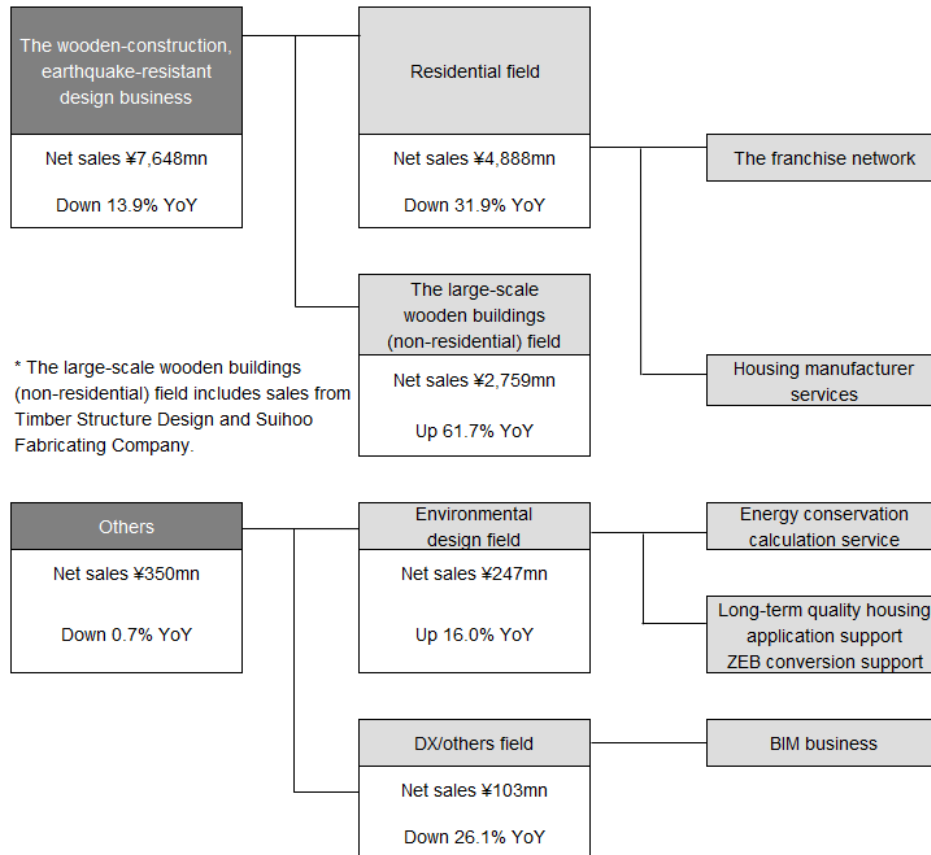
The revision of the Building Standards Act was passed in an Ordinary Diet Session in June 2022, making it obligatory from April 2025 to ensure energy-saving performance in wooden housing. Authorities unveiled updated content for energy-saving performance standards that are more advanced than previously and wooden building confirmation application standards (No. 4 Special Exemptions) and disclosed reinforcement of standards (increase in wall quantity) for the simplified design in wooden housing (wall quantity calculation). Structural calculations of wooden housing have been the Company's core business from the beginning, and its various investments in growth in anticipation of government policy are reflected in its earnings performance. Looking ahead to 2025, when the need for structural calculations is expected to spike, the Company is preparing for the shift to wooden buildings and design DX as Japan moves toward a decarbonized society.

Results trend



Source: Prepared by FISCO from the MLIT's Housing Starts Statistics Survey

Business segments and segment net sales



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

Results trend

Net sales of the residential field totaled ¥4,888mn (down 31.9% YoY). The number of shipments of housing structures through the SE-Structure Method was 907 buildings (down 23.3% YoY), and average sales value per SE-Structure Method shipment fell by about 5% (as of 1Q FY3/24) due to the drop in the prices of key materials to levels prior to the wood shock. The number of registered contractors was 606 companies, following the addition of 28 companies.

Net sales of the large-scale wooden buildings (non-residential) field increased substantially to ¥2,759mn (up 61.7% YoY). The number of shipments of housing structures through the SE-Structure Method was 136 buildings (up 41.7% YoY). At Timber Structure Design, which handles architectural design of non-SE Structure Method large-scale wooden buildings, shipments of structural calculations increased 61.5% YoY to 84 buildings as a result of increase in project inquiries driven by upturn in wooden building structural calculation needs and ongoing promotional activities. Combined with shipments of structural calculations through the SE-Structure Method of 142 buildings (up 1.4% YoY), total shipments of structural calculations increased a sharp 17.7% to 226 buildings. The Company is also expanding its scope of business in this field by making Suihoo Fabricating Company (with strengths in large section laminated timber processing, specialized wood processing, and construction of large wooden buildings) a consolidated subsidiary in October 2022. Further, in May 2023, the Company obtained a structural assessment from The Building Center of Japan for its SE-Structure Method adapted for a five-story wooden building. This is the result of technical research and development at the Company's research facility Timber Structure Lab. Wooden buildings over three stories high were previously not qualified to apply for building certification due to fire prevention and structural factors, but the use of the SE-Structure Method has made it relatively simple to obtain approval to apply for building certification. The Company will therefore strengthen its support structure for builders and regional general contractors working on wooden mid-rise and high-rise building projects.

In May 2023, equity-method affiliate MUJI HOUSE, concluded an agreement regarding greater use of wood to promote use of wood in buildings with Ryohin Keikaku Co., Ltd. <7453> and the Forestry Agency, Ministry of Agriculture, Forestry, and Fisheries. This is part of a concept for Ryohin Keikaku to contribute toward achieving carbon neutrality in 2050 and revitalize mountain village economies by actively utilizing domestic wood materials in structural materials and interior/exterior decorating when building and remodeling wooden company-run stores. The plan is to build wooden MUJI stores utilizing 10,000 m² of domestic wood materials in the next five years. MUJI HOUSE, which builds Muji homes, plans to build wooden MUJI stores using the SE-Structure Method, but in practice, the Company will engage in the process from structural calculations and energy conservation calculations to supplying precut materials, and its registered contractors will do the building work.

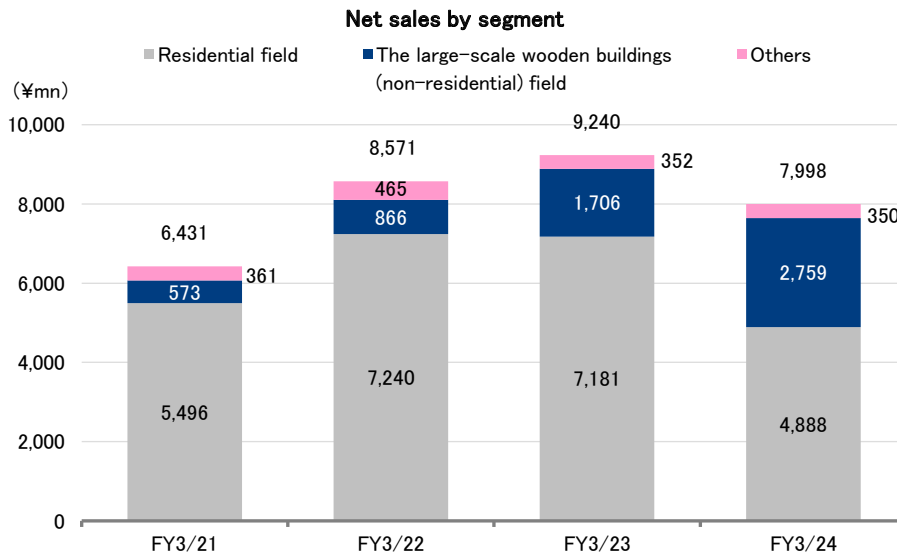
Net sales of the environmental design field totaled ¥247mn (up 16.0% YoY). Through adopting a strategy of providing a service that combines consulting services relating to receiving subsidies in response to explaining the energy-saving performance of homes, which became obligatory in April 2021, shipments of primary energy calculation sheets for wooden homes, condominiums, and non-residential wooden buildings totaled 2,887 (up 15.6% YoY). According to the Company, along with the construction of conventional detached houses, condominiums, and facilities, renovations are also increasing for buildings that require residential energy conservation calculations, and demand is likely to increase related to the renovation of existing homes to address the issue of vacant homes.

From FY3/24, the Company also began providing support for non-residential buildings to obtain ZEB status. It provided this support for two buildings and applied for subsidies.

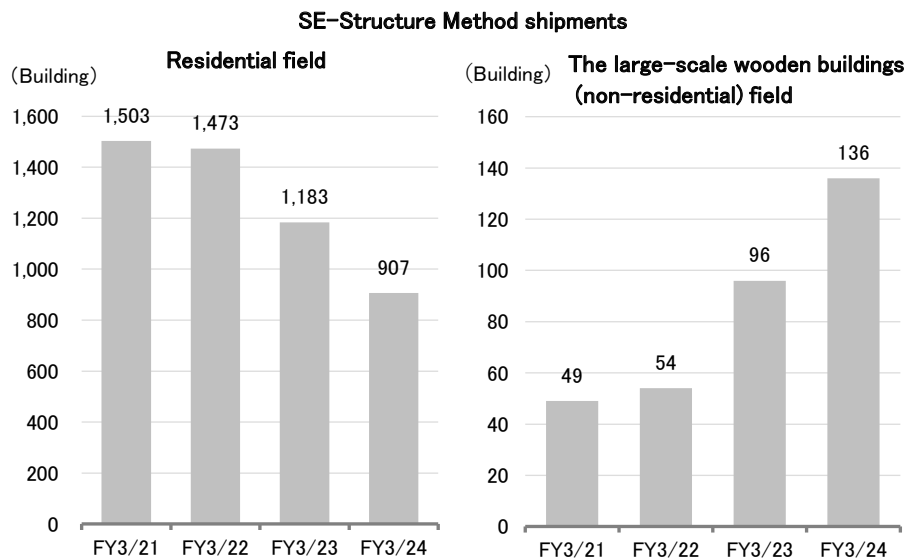
Net sales of the DX/others field came to ¥103mn (down 26.1% YoY). Subsidiary MAKE HOUSE, which develops and provides IT solutions for wooden construction, began training personnel at MAKE HOUSE BIM BASE, which was established in October 2021, to expand its business and conducted sales activities for MAKE ViZ, a high-resolution construction space simulation service harnessing BIM technology. However, net sales in FY3/24 turned down due to the dropout of a large spot project recorded in FY3/23.

Results trend

As well, in July 2023, the Company transferred 60% of its shareholding in SE Home Loan Services to Public Holdings (a Credit Saison Flat 35 agency like SE Home Loan Services), which runs a home loan financial agency business including bank agency and insurances services including fire insurance. It has executed Flat 35 loans totaling more than ¥300.0bn. In 2022, Public Holdings received approximately 1,000 home loan applications, of which it acted as an agency for around 700. The Company aims to strengthen its financial support structure for registered contractors in collaboration with Public Holdings to expand its business.



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



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

Results trend

After trading companies made aggressive efforts to source wood materials amid supply shortage concerns stemming from the wooden materials supply shortage (“wood shock”) and Russia’s invasion of Ukraine, the supply-demand situation eased due to a slowdown in new housing starts. Housing investment declined in the US due in part to rising long-term interest rates, leading to a drop in demand for wood materials. The Chicago (CME) lumber futures price has fallen from around \$1,670 in May 2021 to \$500, close to pre-pandemic levels. Although trading companies and manufactures that sharply increased their inventory during the wood shock likely made a substantial profit, we at FISCO think that a negative impact will be unavoidable due to surplus inventory as housing demand starts to weaken.

The Company sources all of its structural laminated wood from domestic manufacturers. Company President Ikuo Takusari has a wealth of knowledge on wood material distribution, having experience in importing wood from the US, Canada, and New Zealand when he worked in the lumber department of a trading company. This gave the Company a big advantage in responding to the wood shock, managing to source the right quantity of wood materials during the critical period without carrying excess inventory. Although import price indices for wood materials, wood products, forestry products, plywood, and laminated wood remain at a high level, the Company continues to leverage its strengths as prices appear to be peaking out.

In the revised Building Energy Efficiency Act enacted in April 2021, newly constructed non-residential buildings (with a floor area of 300 m² 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.

The Company has been conducting energy conservation 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 at FISCO, we think that the growth of sales in this segment will continue in the future.

3. Financial position

(1) Financial position

Total assets were ¥5,722mn, decreasing ¥1,126mn from the end of the previous period. This was mainly due to decreases of ¥655mn in cash and deposits, ¥140mn in accounts receivable – trade, and ¥272mn in accounts receivable arising from outsourced production contracts. Total liabilities were ¥3,578mn, decreasing ¥1,007mn from the end of the previous period. The main reasons for this were decreases of ¥730mn in accounts payable, ¥160mn in accounts payable – other, and ¥87mn in long-term borrowings. Total net assets were ¥2,144mn, decreasing ¥118mn, mainly due to a decrease of ¥118mn in retained earnings due to the payment of dividends.

Results trend

Balance sheet

	End of FY3/23	End of FY3/24	Change	(¥mn)
Current assets	5,319	4,211	-1,107	Cash and deposits -655, Accounts receivable – trade -140, Accounts receivable arising from outsourced production contracts -272
Fixed assets	1,529	1,510	-18	
Total assets	6,849	5,722	-1,126	
Current liabilities	3,492	2,542	-950	Accounts payable -730, accounts payable – other -160
Fixed liabilities	1,093	1,036	-57	Long-term borrowings -87
Total liabilities	4,586	3,578	-1,007	
Capital	390	390	-	
Capital surplus	255	255	-	
Retained earnings	1,707	1,589	-118	
Treasury shares	-316	-316	-	
Total net assets	2,263	2,144	-118	
Equity ratio	29.8%	33.6%	3.8pt	

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

(2) Cash flow situation

Cash and cash equivalents totaled ¥2,195mn at the end of FY3/24, decreasing ¥655mn from the end of the previous period.

Cash flows used in operating activities was ¥144mn (versus cash flows from operating activities of ¥61mn in the previous period), mainly based on the decreases of ¥358mn in trade receivables and ¥754mn in trade payables. Since the construction industry has a longer turnover period for trade payables than the turnover period for trade receivables, during times of declining net sales, trade payables decline by more than trade receivables.

Cash flows used in investing activities was ¥277mn (versus cash flows from investing activities of ¥188mn in the previous period). Main outflows were ¥51mn for expenditure to acquire property, plant and equipment, ¥128mn for expenditure to acquire intangible con-current assets, and ¥130mn for purchase of shares of subsidiaries and associates.

Cash flows used in financing activities was ¥233mn (versus cash flows from financing activities of ¥558mn in the previous period). Main outflows were ¥118mn in dividend payments, ¥77mn in repayments of short-term borrowings and long-term borrowings, and ¥30mn in repayments of lease liabilities.

In FY3/24, while cash flows from operating activities was negative, partly due to the decline in net sales, the Company utilized extensive internal reserves from past years to actively engage in investment activities aimed at strengthening collaboration in growth areas with affiliates and building support structures.

Simplified statement of cash flows

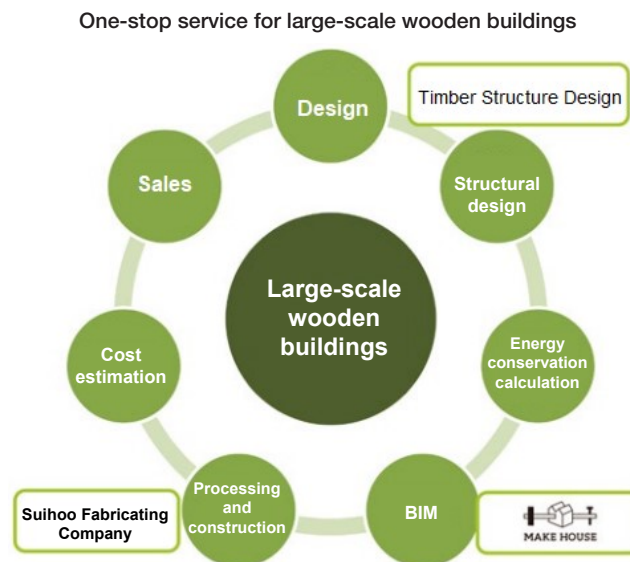
	FY3/23	FY3/24	Change	(¥mn)
Cash flows from operating activities (a)	61	-144	-205	
Cash flows from investing activities (b)	-188	-277	-89	
Cash flows from financing activities (c)	-558	-233	325	
Free cash flow (a) + (b)	-127	-421	-294	
Cash and cash equivalents at end of period	2,851	2,195	-655	

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

Strengths

Expanding business scope to become a total wooden-structure solutions company

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. This proprietary supply chain is perhaps the Company's greatest strength.



Source: The Company's financial results briefing materials

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 FY3/24, the number of contractors had expanded to over 606 companies. It aims to 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. In addition, the Company strengthened its business structure and expanded its scope of business in large-scale wooden structures, where buildings are becoming larger and more specialized, by making Suihoo Fabricating Company, which excels in large section laminated timber processing, specialty processing of wooden materials, and large-scale wooden building construction capabilities, a subsidiary. FISCO sees potential for growth as a total wooden-structure solutions company at a time of growing demand for large-scale wooden buildings requiring structural calculations, because the target for the government's policy of promoting greater use of wood is spreading from public buildings to private-sector buildings.

Strengths

1. The SE-Structure Method

As explained above, the SE-Structure Method is the Company's proprietary construction system that incorporates the rigid construction method that has been the mainstream method for steel-frame and RC structures, into wooden housing. The SE-Structure Method is overwhelmingly strong. 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 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 at the same time. 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.

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 buildings (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, enforced in October 2010, promotes the use of wood in public buildings, which have a low wooden-building rate, and for which demand can be expected to increase in the future. 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 Act 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 m²
- (3) Wooden buildings, including homes, of more than 13 m in height
- (4) With eaves of a height of more than 9 m

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 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 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.

Strengths

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 the “Fact-Finding Survey on BIM Utilization and Adoption in the Construction Field” conducted by the MLIT in December 2022, the percentage of BIM-related departments responding that they have not introduced BIM was 50.4%. The Group's initiatives hence are likely to create orders opportunities and enhance business quality as first-mover benefits.

In April 2021 under the revised Building Energy Efficiency Act, the “obligation to explain a building's energy-saving performance” was started, while in April 2025, the scope of the Building Standards Act Article 20 No. 4 Special Exemptions will 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 two or fewer floors and a floor area of 500 m² or less, are exempted from the structural inspection in the construction approval. But by reducing the scope of No. 4 Special Exemptions, the special handling of wooden buildings will be revised and they will be treated the same as buildings with other structural forms. In short, buildings other than single-story buildings and those with a total floor area of 200 m² or less require an examination of structural provisions, etc., regardless of their structure.

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, No. 4 Special Exemptions will finally be reduced in April 2025 and the building permit procedure for wooden buildings will be revised. 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 Act Article 20 No. 4 Special Exemptions. The Company acquired MAKE HOUSE as a wholly owned subsidiary in June 2022 and thereby established a capability to respond more quickly in order to actively launch new businesses and conduct investments toward growth in the future.

4. The large-scale wooden buildings (Suihoo Fabricating Company)

Suihoo Fabricating Company is trusted by well-known architects because of its long history and superior technological capabilities, and has established an order base among major general contractors. As a registered contractor of the Company, Suihoo Fabricating Company has a strong track record in the construction of wooden buildings using the SE-Structure Method. Its addition to the New Constructor's Network Group has brought its know-how in large-scale wooden building construction, specialized processing, and precut processing in-house, which expands the scope of the Company's business beyond its mainstay structural calculations and structural processed product shipments relating to large-scale wooden buildings, further advancing scale expansion.

Strengths

5. 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.” For the Tiny Houses conceived by YADOKARI, it is developing products that utilize the Company’s SE-Structure Method. In addition, we at FISCO think new ideas with YADOKARI will emerge by proposing new lifestyles.

Ichinomiya Realize is a town-planning company established in September 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 Kujukurihama in eastern Chiba Prefecture. It is attracting attention for its regional revitalization alongside new ways of living, such as renovating vacant wooden-construction stores and working on shared offices with communication functions.

MUJI HOUSE built Forest Living in Isumi City, Chiba Prefecture, and the Younoie MUJI home at the Tokyo Ariake Center. They are single-story wooden houses built using the SE-Construction Method that do not require corridors, making the most of the limited space. They are suitable as double-base dwellings, vacation homes (villas), or lodging facilities for rent.

N&S Development, a joint venture with Sanu, develops and operates Sanu’s subscription service “SANU 2nd Home.” It aims to promote the spread of wooden buildings toward realizing a decarbonized society by providing lodging buildings that utilize the SE-Structure Method to SANU 2nd Home.

Business outlook

Expects business expansion accompanying green reforms aimed at decarbonization in FY3/25. Forecasts ¥8,976mn in net sales and ¥223mn in operating income

1. FY3/25 results forecasts

For the FY3/25 results, the Company is forecasting net sales of ¥8,976mn (up 12.2% YoY), operating income of ¥223mn (up 168.6%), ordinary income of ¥285mn (up 497.0%), and profit attributable to owners of parent of ¥208mn (¥0mn in FY3/24). In FY3/25, the second year of the three-year medium-term management plan, even with the environmental downside from the decline in housing demand, it is likely to expand business by responding to societal requests, such as green reforms aimed at decarbonization and required compliance with energy-saving standards from April 2025. Amid these positive trends, the Company hopes to achieve growth by bolstering standards for simplified designs in wooden housing for the residential field and promoting business that leverages technologies and know-how cultivated up to now to address growing non-residential needs in the large-scale wooden buildings (non-residential) field.

Business outlook

FY3/25 results forecasts

(¥mn)

	FY3/24 Results	FY3/25 Forecasts	YoY	
			Change	Increase/ decrease rate
Net sales	7,998	8,976	978	12.2%
Operating income	83	223	140	168.6%
Ordinary income	47	285	238	497.0%
Profit attributable to owners of parent	0	208	208	-

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

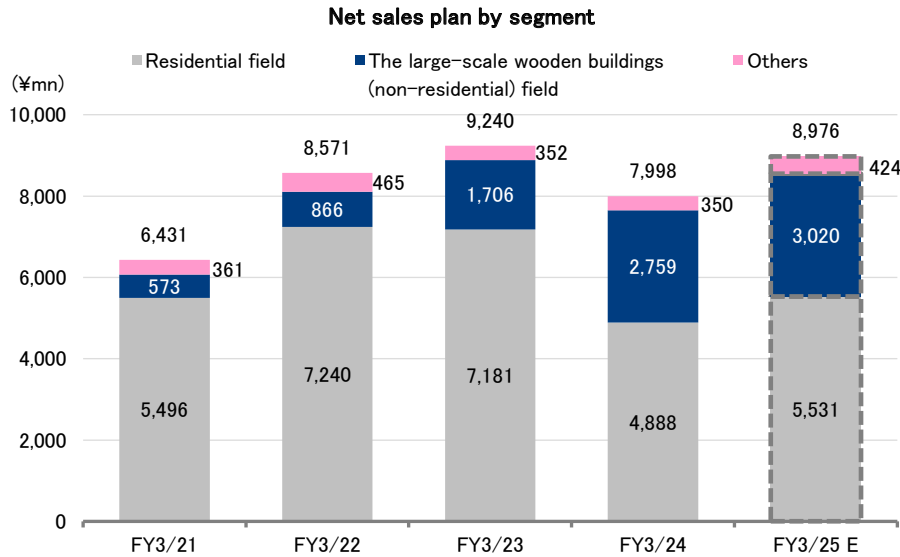
The Company forecasts ¥5,531mn in net sales in the residential field (up 13.2% YoY). It intends to finalize the process to comply with the Building Standards Act revisions implemented up to now and revive shipments of housing structures through the SE-Structure Method to 1,035 homes (up 14.1%). Regarding structural calculation shipments at registered contractors and others, the number of inquiries received for estimates and design requests (a leading indicator) has been recovering from 4Q FY3/24 and reached 626 cases (up 7.6% QoQ). The Company supports its registered contractors from the customer consultation stage using three services – “structural calculation navigation,” “seismic simulations,” and “energy savings simulations.” It prepares structural calculations and energy savings simulations that meet customer requests and proposes design blueprints to registered contractors. Since these measures contribute to higher project order rates at contractors, the Company will continue sales support for registered contractors and seek to expand orders again in FY3/25.

The Company forecasts ¥3,020mn in the large-scale wooden buildings (non-residential) field (up 9.4% YoY). This outlook factors in income contributions from Timber Structure Design's one-stop service for large-scale wooden buildings that also applies methods besides the SE-Structure Method. Suihoo Fabricating Company plans to ship a large project for the Osaka World Expo pavilion that should boost sales. It is also targeting standalone profitability by bolstering sales of MAKE ViZ, a high-resolution construction space simulation service that uses BIM. Suihoo Fabricating Company is providing synergies through its relationship with the Company too by handling construction consignments for SE-Structure Method shipments by the Company. Even in projects that previously went outside to other companies, teamwork by the two companies is lifting the number of projects acquired by the Group from design through to construction. While Suihoo Fabricating Company is contending with labor shortages and an aging workforce, it purchased robot processing equipment with investments from the Company and is raising wood material processing efficiency with these facilities. Suihoo Fabricating Company's growth driven by synergies is likely to contribute substantially to expansion of Group results.

MUJI HOUSE, an equity-method affiliate, is headed toward an earnings recovery thanks to the end of the wood shock. MUJI HOUSE announced that it will build the wooden stores that Ryohin Keikaku plans to open. This activity should increase sales and deliver profitability as the MUJI HOUSE completes and transfers the sites. MUJI HOUSE is also generating results in the renovation field, including roughly 300 renovation sites handled over the year in FY3/24. Business expansion in this area is expected.

It also forecasts ¥424mn in the others field (up 21.3% YoY). In the environmental design field, the Company expects a rise in residential energy conservation calculation shipments ahead of obligatory energy conservation calculations in 2025 and plans shipments for 3,559 sites (up 23.3%). In non-residential business, it intends to strengthen ZEB conversion assistance and expand sales of MAKE ViZ at MAKE HOUSE. In the technology field, it will actively utilize the Timber Structure Lab and contribute to the improvement of domestic material usage efficiency.

Business outlook

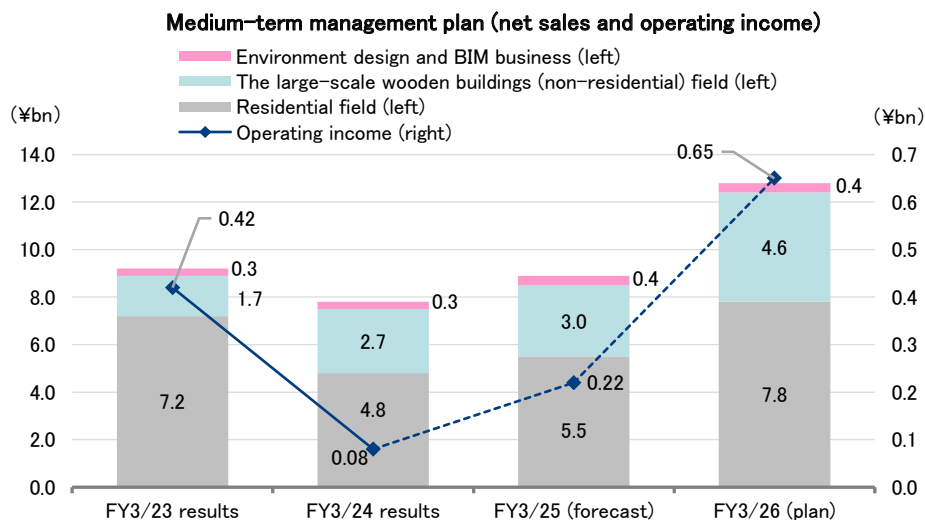


Source: Prepared by FISCO from the Company's financial briefing materials

In terms of profit, the Company expects significant gains on the positive effect of higher sales and achieving profitability at subsidiaries with large project shipments and the end of the wood shock. While advertising and promotional costs are expected to continue rising due to the reinforcement of marketing activities that address revisions of the Building Standards Act, the plan targets 2.5% operating margin (versus 1.0% in the previous period).

2. Progress on the medium-term management plan and the growth strategy for the future

In FY3/24, the first fiscal year of the medium-term management plan, results fell short of the plan by a significant margin, with ¥7,998mn in net sales versus the ¥9,055mn target (88.3% attainment rate) and ¥83mn in operating income versus ¥233mn (35.7%). The Company disclosed updates to the medium-term management plan mainly due to a significant shortfall in residential field progress versus the plan under pressure from sluggishness in new housing starts volume.



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

We encourage readers to review our complete legal statement on "Disclaimer" page.

Business outlook

Growth strategies for the future are as follows. (1) Expand market share in the residential field by increasing the number of registered SE-structure contractors and grow sales expansion in the non-residential field. (2) Provide its own unique one-stop service relating to large-scale wooden buildings in the non-residential field by harnessing its structural calculation and energy conservation calculation expertise and materials supply capabilities plus subsidiary Suihoo Fabricating Company's capabilities in specialized processing and construction for large-scale wooden buildings. (3) Respond to growing demand for structural calculations and energy conservation calculations as a result of revision of the Building Standards Act in April 2025. (4) Provide support for making non-residential buildings more energy efficient (e.g., support for obtaining ZEB status).

In the residential field, the Company supports sales by registered contractors using three services – “structural calculation navigation,” “seismic simulations,” and “energy savings simulations.” It intends to focus on attracting customers who are required to meet the stricter standards of the revised Building Standards Act, which will expand the advantages of the SE-Structure Method.

In the large-scale wooden buildings (non-residential) field, the Company has opportunities with wooden stores that Ryohin Keikaku plans to open. As noted above, it will use 10,000 m² of domestic materials over the next five years. Since the Company utilizes roughly 20,000 m² of wood material annually, this puts Ryohin Keikaku's new demand at 10% of the volume. It also intends to encourage registered contractors to enter the non-residential field and hence will support sales activities by these companies with energy savings calculations, BIM, and cost estimation. In the environmental design field, it will promote support for energy savings calculations that are likely to increase and enhanced assistance of non-residential ZEB conversion.

In terms of providing the SE-Structure Method for new lifestyles, the Company plans to invest in new businesses to pioneer the second house market and others to create synergies with the SE-Structure Method. 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 is likely to increase the name awareness of the SE-Structure Method.

Based on the government's roadmap for market areas in creating a new wooden building market that will realize sustainable forest resources and cyclical economy, the market for large buildings that utilize wooden materials (excluding low-rise homes) will be worth ¥1tn in 2030.

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 (CO₂), which is a greenhouse gas, and carbon accumulates in wood fiber. Through the increase in wooden housing, the amount of CO₂ stored increases accordingly and CO₂ is removed from the atmosphere, so changing from RC structures to wooden structures has the effect of reducing CO₂ by a corresponding amount. In addition to seismic 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 CO₂, including its energy conservation calculations and the creation of energy-saving homes that are highly heat insulation passive.

■ 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.

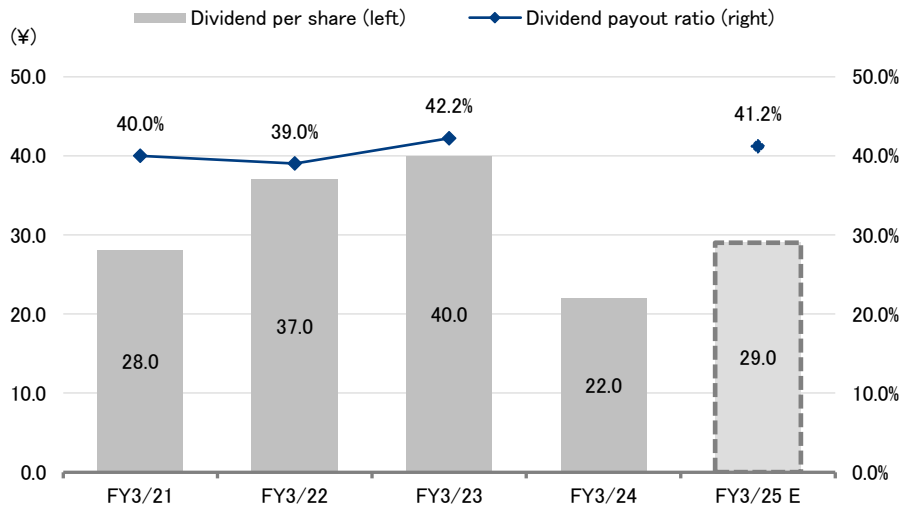
(3) On the theme of spreading the use of energy-saving housing, the Company's goals are to secure access to sustainable and modern energy that is affordable and reliable for everyone based on “7. Affordable and Clean Energy,” and also to contribute to realizing “11. Sustainable Cities and Communities.”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

(4) On the theme of a shift from economic concentration in the Tokyo area to regional revitalization, the Company's goal is “11. Sustainable Cities and Communities.” Specific measures include a capital alliance with YADOKARI and participation in the Forest Living project. The Company supports Isumi Forest Living, which opened in Isumi City, Chiba Prefecture as a co-planner, being a company that engages in activities that will realize an abundant way of life in Japan through regional revitalization by expanding the potential of tree. As well as supplying wooden houses, it makes various proposals unrelated to housing for utilization of forest resources, cooperation with local communities, and activities for enjoying natural forests.

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 that target 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 FY3/24, despite unexpected earnings weakness, the Company retained its dividend target announced at period-start and paid ¥22 per share, a decline of ¥18 YoY. In FY3/25, it plans to pay a ¥29 annual dividend (41.3% payout ratio).

Trends in the dividend per share and the dividend payout ratio



Note: The FY3/24 dividend payout ratio is not calculated due to impact of profit attributable to owners of parent
Source: Prepared by FISCO from the Company's financial results



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