COMPANY RESEARCH AND ANALYSIS REPORT

SALA Corporation

2734

Tokyo Stock Exchange Prime Market

10-Sep.-2025

FISCO Ltd. Analyst
Hideo Kakuta

FISCO
FISCO Ltd.
https://www.fisco.co.jp

Contents

Summary

Expanding the business from our base in the Tokai region, a key industrial hub in Japan. For 1H FY11/25, both net sales and operating profit increased substantially

SALA Corporation <2734> (hereafter, also "the Company") is a unique business group based in Toyohashi City, Aichi Prefecture, Japan. The Company operates diverse businesses, ranging from energy and engineering to housing and real estate, car importing, and animal health products. Net sales reached ¥240.4bn in FY11/24. In the energy field, the Company provides last-mile services to roughly 540,000 customers, mainly in eastern Aichi Prefecture and western Shizuoka Prefecture. It has approximately 5,000 employees working at 348 locations in 24 prefectures, from Hokkaido to Kumamoto. In 2020 the Company announced the 2030 Vision, which sets out a clear goal of achieving dramatic growth in the housing business, under the slogan, "SALA: Common in Your Town, Value to Your Life."

1. Business overview

The Company's operations are divided into six business segments. In addition to the core Energy & Solutions business segment, the Company has the Engineering & Maintenance, Housing, Car Life Support, Animal Health Care, and Properties business segments. It employs two business models: a community-based business model, which leverages the Company's high brand visibility and market share, and a wide-area business model, which focuses on specialized businesses. The community-based business model includes the Energy & Solutions, Engineering & Maintenance, Housing, and Properties businesses, based in eastern Aichi and western Shizuoka prefectures, where the Company has gained high market shares through their close ties to the community. The specialized/ wide-area business model aims to capture large shares of the national market by developing highly specialized niche markets over a wider area. The Car Life Support business (which operates authorized Volkswagen and Audi dealers) and the Animal Health Care business both fall under this category.

2. Overview of 1H FY11/25

In 1H FY11/25, net sales and operating profit both increased YoY. Consolidated net sales increased 10.4% to ¥131,253mn, operating profit increased 20.4% to ¥5,886mn, ordinary profit declined 6.4% to ¥5,732mn, and 1H net profit attributable to owners of parent declined 5.9% YoY to ¥4,051mn. The increase in net sales was primarily attributable to higher sales volume of residential and commercial city gas in the Energy & Solutions business, greater completed construction work across all departments within the Engineering & Maintenance business, and rising orders at the Housing Materials Processing & Sales department in Housing business, along with the inclusion of YASUE CORPORATION (renovation business) in consolidation within the Housing business. Operating profit growth was mainly driven by contributions from Energy & Solutions business and Engineering & Maintenance business.

1H net profit attributable to owners of parent exceeded the upwardly revised interim plan (announced with the Q1 results) by ¥51mn, but fell ¥253mn YoY. The decrease was due to a loss on derivative valuation for foreign exchange forward contracts related to fuel imports at the biomass power plant. In the previous fiscal year, a valuation gain of ¥892mn was booked due to yen depreciation, while in FY11/25, a valuation loss of ¥430mn was booked as a result of yen appreciation. Note that, under the Company's dividend policy states, "derivative valuation gains and losses are excluded," so such gains and losses have no impact on dividends.

3. FY11/25 forecast

For FY11/25, the Company forecasts record-high net sales and operating profit, with consolidated net sales up 9.4% YoY to ¥263,000mn, operating profit up 14.1% to ¥7,200mn, ordinary profit down 6.0% to ¥7,700mn, and net profit attributable to owners of parent down 2.8% to ¥5,100mn. By business segment, it sees net sales rising in all six segments and operating profit increasing in four segments (except for Engineering & Maintenance business, Car Life Support business). In the Energy & Solutions business, the Company plans to expand its business by offering energy-efficient and carbon-neutral solutions. In the Engineering & Maintenance business, it plans to capture orders supported by stable public investment and expand its business by proposing facilities and infrastructure that contribute to decarbonization and by proposing Net-zero Energy Buildings (ZEBs). In Housing Business, the Company will steadily deliver the high-performing “SINKA” series and focus on sales of built-for-sale homes. In Car Life Support business, the Company will focus on new-car sales as supply recovers. In Animal Health Care business, the Company will utilize the time saved through completion of sales-logistics separation and warehouse consolidation to strengthen its sales capabilities. In Properties business, the Company will focus on the real estate investment business launched this fiscal year within the real estate division, aiming to expand transaction volume in the property market. The 1H progress rate against the full-period forecast showed smooth net sales at 49.9% and strong operating profit at 81.8%.

4. Growth strategy and topics

The Company entered the retail electricity business in 2016 and has been nurtured the business. To date, beyond power retailing, it has supported customers’ energy saving and carbon neutrality through initiatives such as solar power generation, storage batteries, and cogeneration systems. During FY11/25, the Company will commence operation of two grid-scale storage plants. The primary objectives include supplying balancing capacity to enable renewable energy integration and maintaining grid power quality. Looking ahead, the Company is considering entry into aggregation business, where customers’ energy savings (negawatts) are traded in the power market. By returning electricity bill savings with customers, the Company aims to acquire new customers and establish this as a new earnings stream.

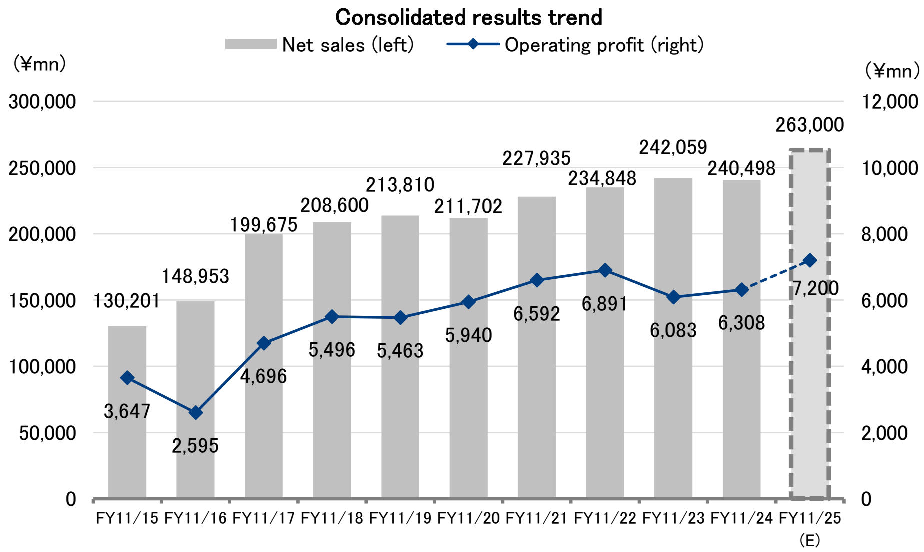
Integration with YASUE — consolidated as a subsidiary in December 2024 — is now underway. The Company seeks to enhance profitability by transplanting YASUE’s high-margin business model into its existing reform business and to broaden revenue opportunities by mutually leveraging customer bases. It is also examining initiatives such as developing new markets, addressing labor shortages through shared use of construction firms and craftsmen, and joint procurement of materials to reduce costs. The Company intends to strengthen its stock business model (purchase → maintenance including renovations → resale/inheritance) by generating synergies that leverage both parties’ strengths.

5. Shareholder return policy

In line with its capital allocation policy announced in July 2024, the Company has introduced a progressive dividend and lifted its payout ratio target from “around 30%” to “more than 40%” to improve shareholder returns. Since FY11/2013, the annual dividend has continued to be maintained or increased. Because the payout ratio target has been raised on July 2024, it plans to pay an annual dividend of ¥32.0 for FY11/25 (interim (already paid) : ¥16.0, year-end (projected) : ¥16.0), for a payout ratio of 40.3%.

Key Points

- In 1H FY11/25, core businesses performed solidly, delivering higher net sales and a substantial rise in operating profit. Operating profit progress against the full-year forecast exceeded 80%
- With the three core businesses remaining firm, the Company expects net sales and operating profit to reach record highs in FY11/25.
- The Company has adopted a progressive dividend policy, raising its target payout ratio from the previous 30% to over 40%. For FY11/25, the Company plans an annual dividend of ¥32.0, an increase of ¥2.0 YOY.



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

Company profile

Community-based company, mainly engaged in energy and urban infrastructure construction and engineering, housing, and real estate businesses

1. Company profile and history

The Company is a unique corporate group based in Toyohashi City, Aichi Prefecture, Japan. The Company operates diverse businesses, ranging from energy and engineering to housing and real estate, car importing, and animal health products. As of FY11/24, net sales totaled ¥240.4bn and it had roughly 540,000 customers, with 5,000 employees working at 348 locations across 24 prefectures from Hokkaido to Kumamoto, but primarily in Aichi and Shizuoka prefectures. The Aichi and Shizuoka region, the Company's main operating base, has significant potential as one of Japan's leading manufacturing centers and a top agricultural producer. Founded as a city gas supplier 116 years ago in 1909, the Company has a long corporate history. In the 1960s, it started to diversify its operations, aiming to become a corporate group that provides comprehensive support to local communities and people. Starting with a liquefied petroleum gas (LPG) business, the Company expanded into freight transportation and automobile maintenance and sales in 1962, equipment and civil engineering in 1963, and housing in 1969. In the 1990s, as Japan's economy matured, the Company began implementing a group management approach. As stated in the Group Corporate Philosophy, established in 1993, "Our goals are to realize an enriched society as a corporate group trusted by regional communities, through our creations of beautiful and comfortable living spaces." This philosophy continues to guide the Company today as it expands its non-energy-related businesses. The name "SALA" is a coined acronym for "Space Art Living Amenity," expressing the corporate group's desire to achieve "Beauty and Comfort for Living Spaces."

In 2002, SALA Corporation was established as a pure holding company for LPG, equipment and civil engineering, and automobile sales businesses, listing on the First Sections of the Tokyo Stock Exchange (TSE) and the Nagoya Stock Exchange (NSE) in the same year. In 2016, CHUBU GAS CO., LTD. (now SALA ENERGY CO., LTD.) and SALA HOUSE CO., LTD. became wholly owned subsidiaries of the Company through a share exchange, integrating the capital of the Group and creating a structure to pursue "the provision of value as a unified SALA." In 2020 the Company announced its 2030 Vision, which sets out a clear goal of achieving dramatic growth in the housing business, under the slogan, "SALA: Common in Your Town, Value to Your Life."

In April 2022, the Company's listings were moved to TSE Prime Market and NSE Premier Market. The Company has also actively pursued M&A, incorporating Dowa Chemical Co., Ltd. (veterinary medicines wholesaling) as a subsidiary in March 2024 and YASUE in December 2024.

History

Date	History
Founding period (from 1909)	Toyohashi Gas Co., Ltd. established in 1909 and Hamamatsu Gas Co., Ltd. established in 1910 as city gas companies. The companies merged in 1943 to form CHUBU GAS CO., LTD. (now SALA ENERGY CO., LTD.)
Diversification period (from 1960s)	Moved into LPG business in 1959, automobile maintenance and sales business in 1962, equipment and civil engineering business in 1963, and housing business in 1969. CHUBU GAS CO., LTD. (now SALA ENERGY CO., LTD.) listed on Second Section of Nagoya Stock Exchange (NSE) in 1963; GASTEC SERVICE INC. (now SALA ENERGY CO., LTD.) listed on Second Section of NSE in 1985 (listing moved to First Section of TSE in 1988); Chubu Engineering Corporation listed on Second Section of NSE in 1991
Group management promotion period (from 1993)	Established Group Corporate Philosophy in 1993
May 2002	SALA Corporation — a pure holding company for LPG, equipment & civil engineering, auto sales businesses — was established and listed on First Sections of TSE and NSE
September 2004	Changed group name to the “SALA Group”
July 2016	Integrated Group’s capital; CHUBU GAS CO., LTD. and SALA HOUSE CO., LTD. made wholly owned subsidiaries through share exchange
December 2019	Energy business restructured. CHUBU GAS CO., LTD. completed an absorption-type merger with GASTEC SERVICE INC. and was renamed SALA ENERGY CO., LTD.
April 2022	Company’s listings transferred to TSE Prime Market and NSE Premier Market
December 2024	YASUE CORPORATION was consolidated as a subsidiary

Source: Prepared by FISCO from the Company’s Integrated Report, website, and corporate data

2. Business description

The Company’s Living & Energy Services are divided into six business segments. The largest business segment is 1) the Energy & Solutions business, which supplies city gas, LPG, and other energy-related services to roughly 540,000 local households and enterprises. It is the Group’s core business, accounting for 50.1% of consolidated net sales and 42.6% of operating profit. 2) The Engineering & Maintenance business includes urban infrastructure development (roads, construction, port engineering, etc.) and facility construction and maintenance. Generating 13.7% of net sales and 38.0% of operating profit, the business is the second-largest contributor to earnings. 3) The Housing business includes built-to-order and built-for-sale homes, renovation, and construction material sales. It provides 14.9% of net sales and 10.7% of operating profit. 4) The Car Life Support business sells and services imported automobiles (Volkswagen and Audi), accounting for 7.2% of net sales and 0.9% of operating profit. 5) The Animal Health Care business sells veterinary drugs and therapeutic foods wholesale. It provides 10.7% of net sales and 2.0% of operating profit. 6) The Properties business includes real estate leasing, sales, and brokerage, a community development business, and the management of hotels, restaurants, and sports clubs. It accounts for 3.4% of net sales and 5.8% of operating profit.

Comparing energy-related and non-energy-related businesses, approximately 50% of net sales and 60% of segment profit (based on the latest full fiscal year) are generated from non-energy-related businesses, putting the Company on track to achieve its 2030 Vision of “SALA for all aspects of life.”

Overview of each segment

Segment	Business description	Consolidated subsidiaries, etc.	Composition (FY11/24)	
			Net sales	Segment profit
Energy & Solutions business	City gas, LPG, electricity, petroleum products, high-pressure gas, logistics services, home renovation, etc.	SALA ENERGY, SALA E&L Higashi Mikawa, SALA E&L Hamamatsu, SALA E&L Nagoya, SALA E&L Shizuoka, GOOD LIFE SALA KANTO, SALA e ENERGY, SALA e POWER, SALA Logistics, Living SALA, SALA Water, Mikawawan Gas Terminal, Nikko, Chubu Propane Stand, Hamamatsu Propane Stand, KANTOH	50.1%	42.6%
Engineering & Maintenance business	Urban infrastructure development (roads, construction, port engineering, etc.), facility construction and maintenance, system development, etc.	Chubu Engineering Corporation, Jinno Construction, Suzukigumi, Chubu Engineering Service, Techno Systems, Seien Concrete Industries, Tokiwa Doro, Showa Cleaner, Chubu Building Services, SEIWA SECURITY SERVICE	13.7%	38.0%
Housing business	Built-to-order and built-for-sale homes, renovation, construction material sales, etc.	SALA HOUSE, Chubu Home Service, Taiyo-co, Miyashita Koumuten, SALA HOUSE SUPPORT, ECO-HOME PANEL *From FY11/25, YASUE, Toya House, APRICOT, MIMA, and Garden are included.	14.9%	10.7%
Car Life Support business	Sale and servicing of imported automobiles (Volkswagen, Audi), etc.	SALA CARS JAPAN	7.2%	0.9%
Animal Health Care business	Veterinary medicines, therapeutic food, etc.	ASCO, Dowa Chemical	10.7%	2.0%
Properties business	Real estate leasing, sales and brokerage, community development business, management of hotels, restaurants, and sports clubs, etc.	SALA Real Estate, SALA Hotels and Restaurants, SALA Sports	3.4%	5.8%

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

Business overview

Based in eastern Aichi and western Shizuoka—among Japan's top industrial clusters

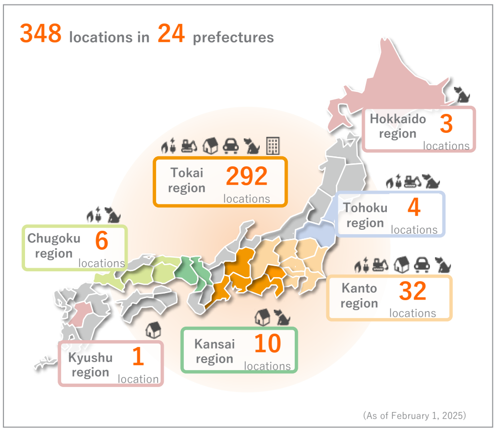
1. Expanding nationwide from our base in the Tokai region, a key industrial hub in Japan

The Group's core market comprises eastern Aichi Prefecture, including Toyohashi City where headquarters are located, and western Shizuoka Prefecture centered on Hamamatsu City. Combined shipments of manufactured goods from the two regions approached ¥11 trillion in 2021, far exceeding Yokohama, Kawasaki, and Osaka (all in the ¥4 trillion range), making it one of Japan's foremost industrial clusters. The region hosts numerous mother factories of companies such as Toyota Motor <7203>, Suzuki <7269>, and Yamaha Motor <7272> in transportation equipment, as well as Nitto Denko <6988>, Kao <4452>, and Tokyo Steel Manufacturing <5423>. Agricultural output is also among the highest in Japan, with many agricultural products ranking near the top nationwide. Building on this high-potential region, the Company has expanded its business area from Tokai to nationwide under the philosophy of "enriching people's lives," "supporting corporate growth," and "enhancing community appeal," not only supplying energy but also delivering broader value. Currently, the Group operates at 348 locations across 24 prefectures from Hokkaido to Kumamoto.

Business area

Expanding the business area centered on Tobu (eastern) area of Aichi Prefecture and Seibu (western) area of Shizuoka Prefecture

	Tobu (eastern) area of Aichi Prefecture	Seibu (western) area of Shizuoka Prefecture
Population	Approx. 720,000	Approx. 1.27 million
Value of manufactured goods shipments	Approx. ¥4.0 trillion (2021)	Approx. ¥6.7 trillion (2021)
Agricultural output	Approx. ¥160 billion (2023) * Tahara City: 2nd nationwide	Approx. ¥110 billion (2023) * Hamamatsu City: 6th nationwide
Companies based in the area	Automobile manufacturers, auto parts manufacturers, motorcycle manufacturers, materials manufacturers, rubber product manufacturers, electrical equipment manufacturers, metal processing manufacturers, etc.	
Characteristics	Mikawa Bay: No.1 in Japan for auto import value, No.2 in export value	

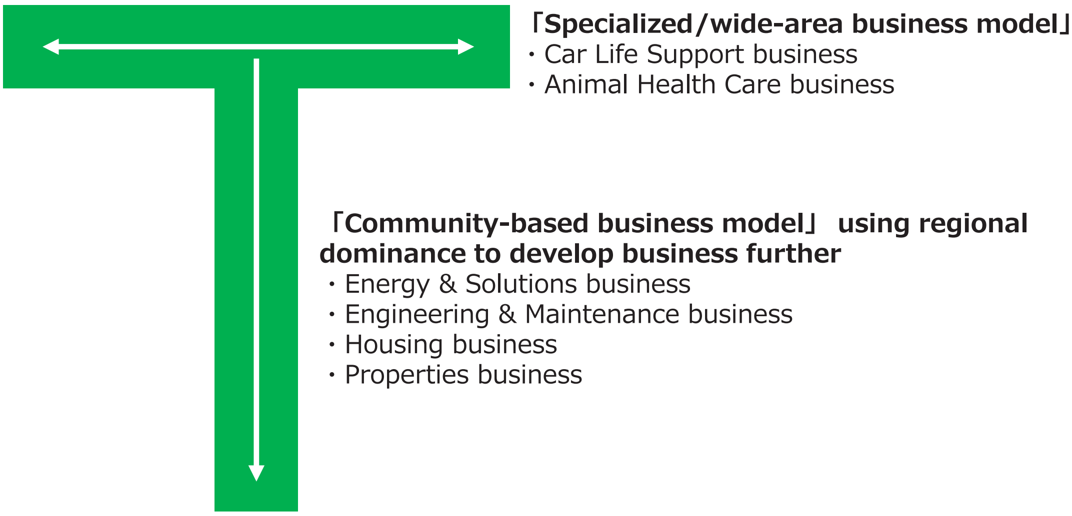


Source: Published from financial results and Medium-Term Management Strategy Briefing materials

2. Two business models: Community-based and specialized

The Company's six business segments can be divided into two business models: a community-based business model, which leverages the Company's high brand visibility, and a wide-area business model, which focuses on specialized businesses. The community-based business model includes the Energy & Solutions, Engineering & Maintenance, Housing, and Properties businesses, based in eastern Aichi and western Shizuoka prefectures, where the Company's strength is in energy and other last-mile personalized services. The specialized/wide-area business model aims to capture large shares of the national market by developing highly specialized niche markets over a wider area. The Car Life Support and Animal Health Care businesses both fall under this category.

Two business models



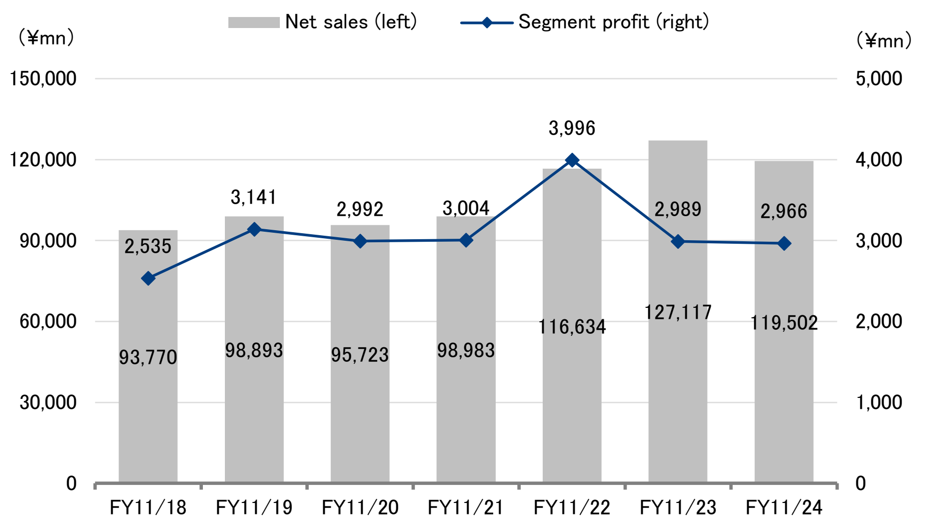
Source: Prepared by FISCO from the Company interview

3. Energy & Solutions business

The Energy & Solutions business operates energy businesses such as city gas, LPG, and electricity, as well as a renovation business, focused on eastern Aichi and western Shizuoka prefectures. The energy business provides stable supplies of conventional energy, while also addressing carbon neutrality needs to create affluent lifestyles for customers and solve issues faced by businesses. Energy is the Company's founding business, boasting 540,000 customers (as of end-May 2025). One out of every two households in the operating region are the Company's customers. The renovation business generated ¥10.5bn in net sales in FY11/24. Energy & Solutions also focuses on BtoB energy supply. It has many large corporate customers due to the high concentration of automobile and other manufacturing industries in the region.

In recent years, earnings in the Energy & Solutions business were impacted by fluctuations in energy costs (higher sales prices tend to weigh on demand) and the changing climate (warmer winters reduce demand), but net sales and profits have risen steadily on the back of growth in the customer base. In 1H FY11/25, net sales rose 5.7% YoY to ¥68,010mn and operating profit jumped 27.0% to ¥5,080mn. Net sales grew as city gas volumes increased mainly for residential and commercial customers. On the profit front, operating income increased significantly, driven by higher gas sales volumes, steady operation of biomass power plants, and efforts to reduce SG&A expenses.

Results trend in the Energy & Solutions business



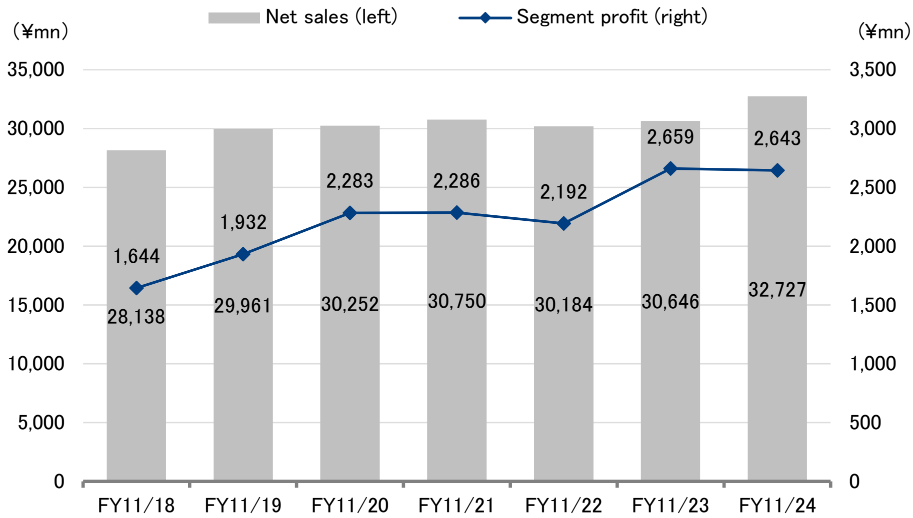
Source: Prepared by FISCO from the Company's financial results

4. Engineering & Maintenance business

Aiming to create safe, secure, affluent, and comfortable spaces, the Engineering & Maintenance business constructs and repairs urban infrastructure that requires advanced technology, such as office buildings, factories, hospitals, schools, condominiums, parks, roads, bridges, and port facilities. It also contributes to carbon neutrality in customers' business activities by proposing equipment and maintenance solutions that help them decarbonize their operations using energy efficiency, energy creation, and carbon offsets. In this business segment, the civil engineering department accounts for roughly 40% of net sales, while the construction, maintenance, and facilities departments each account for about 20%. Historically, the business has strengths in port engineering and also facility construction, including air conditioning, plumbing and sanitation, and energy-related equipment.

In recent years, both sales and profits have shown steady growth. Especially on the profit front, performance is on par with the Energy & Solutions business, with the operating margin at a relatively high 8.1% (FY11/24), driving the Company's earnings growth. In recent years, the business has stepped up marketing to BtoB customers in the energy business, and synergies are now starting to emerge. In 1H FY11/25, net sales rose 16.6% YoY to ¥17,210mn and operating profit jumped 49.8% to ¥1,971mn. Revenue increased due to strong orders and growth in completed works across the equipment, civil engineering, construction, and maintenance departments. On the profit front, profits increased significantly as gross profit on completed works rose across all departments, driven by both higher value of completed works and continuous process management improvements.

Results trend in the Engineering & Maintenance business



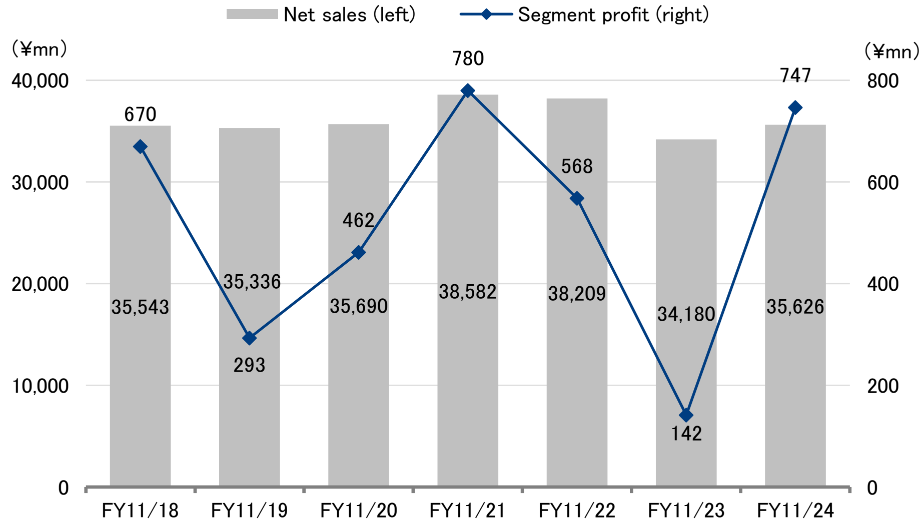
Source: Prepared by FISCO from the Company's financial results

5. Housing business

The Housing business offers comprehensive services related to home building, including the sale of detached houses with a focus on comfort and the sale of high-quality construction materials and housing equipment. In its latest SINKA series, it develops and sells homes with superior energy-efficiency and environmental performance that are compatible with the Net-zero Energy House (ZEH) standard. It aims to achieve a ZEH ratio of 50% by FY11/25. In January 2025, the business began sales of a new product, SINKA KIWAMI, which meets grade 7 insulation performance (the highest grade). In addition to whole-building HVAC system that keeps the house at a comfortable temperature with a single residential air conditioner, it is equipped with a humidity control system that maintains humidity at 40~60%. These features reduce annual utility costs by 40% compared with homes with conventional multiple air conditioning units, making SINKA KIWAMI a competitive product.

In recent years, net sales have remained stable and the business has been profitable at the operating profit level, albeit with some fluctuations (on a full-year basis). In 1H FY11/25, net sales rose 31.6% YoY to ¥20,417mn and operating loss of ¥56mn (vs. ¥180mn operating loss YOY). Despite a decrease in the number of custom-built houses sold by the Housing Sales department, revenue increased significantly. This was driven by higher order intake from house builders and contractors in the Housing Materials Processing & Sales department, coupled with the inclusion of YASUE performance from the current period. While a small operating loss was booked for the first half, the Company forecasts full-year operating profit of ¥1,050mn, with deliveries of custom-built houses under strong orders and sales of built-for-sale homes gaining momentum in the second half.

Results trend in the Housing business



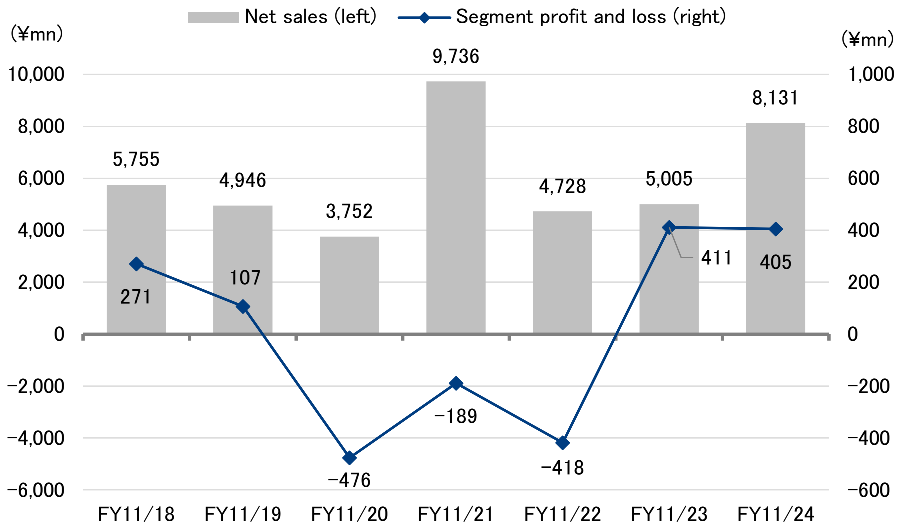
Source: Prepared by FISCO from the Company's financial results

6. Properties business

The Properties business operates businesses related to real estate, hospitality (restaurant and hotel management), and sports (sports club management) in eastern Aichi and western Shizuoka prefectures. The real estate properties department accounts for around 60% of net sales, the hospitality department about 30%, and the sports department the remaining 10% (based on the latest full fiscal year). In the real estate properties department, the business maximizes the Group's customer base and network to propose comprehensive, optimal solutions that meet customer needs.

The business reported losses during the pandemic, but profitability has recovered since FY11/23, with the operating margin reaching 5.0% in FY11/24. In 1H FY11/25, net sales rose 44.9% YoY to ¥3,279mn and operating loss of ¥3mn (vs. ¥6mn operating profit YOY). In the real estate department, revenue increased driven by both the delivery of condominiums completed in the prior period and higher sales from the disposal of company-owned assets and buy-to-resell transactions. In terms of profit, the hospitality department booked a slight operating loss, primarily due to weak demand for wedding services. However, for the full fiscal year, we maintain our initial projection of ¥450mn in operating profit.

Results trend in the Properties business



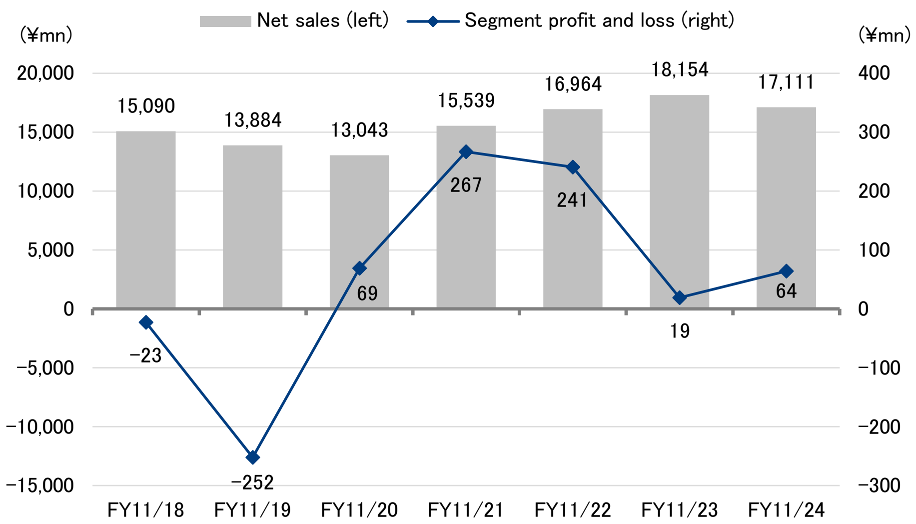
Source: Prepared by FISCO from the Company's financial results

7. Car Life Support business

As an authorized dealer of imported Volkswagen and Audi vehicles, the Car Life Support business operates 13 dealers in Aichi, Shizuoka, and Tokyo (ranking among Japan's top-selling Volkswagen/Audi companies). The business offers optimal proposals for customer needs through the integrated operation of new and used car sales and service divisions. It also provides insurance, financing, and ancillary services to improve the profitability of the business. For FY11/25, new car sales are projected at 2,210 units (vs. 1,353 YOY), with used cars at 1,958 units (vs. 1,806 YOY), achieving balanced sales across new and used car sales.

Net sales have been growing steadily in recent years, but has also been affected by disruptions in the supply chain and other factors. The operating margin is low at 0.4% (FY11/24), leaving room for improvement in profitability. In 1H FY11/25, net sales rose 12.2% YoY to ¥9,006mn and operating loss of ¥693mn (vs. ¥238mn operating loss YOY). Net sales increased as Volkswagen's new car sales rose with recovering import vehicle supply, combined with the active disposal of used car inventory previously acquired for resale. Due to the impact of inventory disposal, an operating loss was booked for the interim period (with full-year profitability still expected).

Results trend in the Car Life Support business



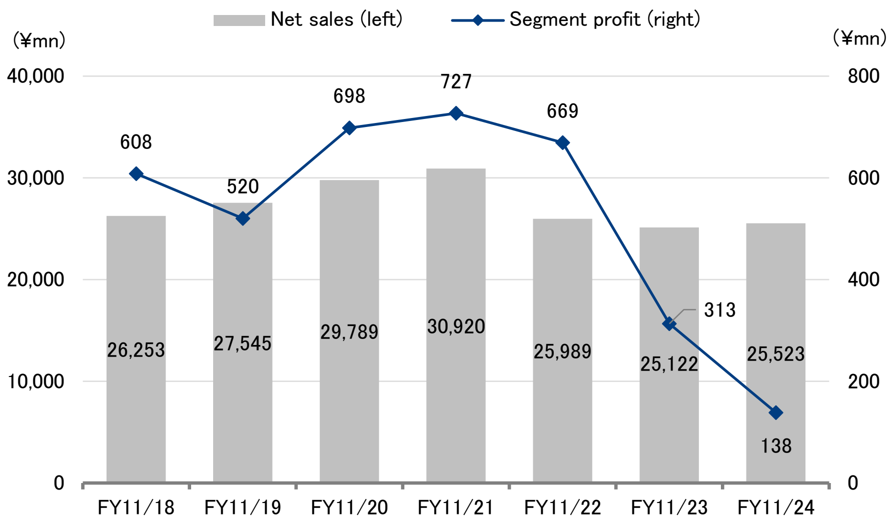
Source: Prepared by FISCO from the Company's financial results

8. Animal Health Care business

The Animal Health Care business operates offices in various Honshu regions and Hokkaido, creating a nationwide service network for the wholesale distribution of veterinary medicines and other products. The livestock farming department accounts for more than 50% of net sales and the pet-related department (serving veterinary clinics) accounts for less than 50%. The pet-related department has a strong position within the industry. The business has the second-largest market share in the industry, but it aims to become the market leader by 2030 by strengthening its logistics and supply chain and reinforcing its sales teams.

Net sales have been stable in recent years. Net sales declined in FY11/22 due to the application of the Accounting Standard for Revenue Recognition, etc., which reduced net sales by ¥4,789mn, and in real terms, the upward trend in sales continues. Due to the nature of the wholesale business, there are limits to how far profitability can be improved, and the business is also exposed to pharmaceutical purchase prices. In 1H FY11/25, net sales rose 5.3% YoY to ¥12,376mn and operating loss of ¥83mn (vs. ¥170mn operating profit YOY). In the livestock farming department, sales remained firm due to steady orders for veterinary medicines. However, overall revenue declined as the pet-related department discontinued supplying certain therapeutic diets following changes in supplier distribution channels. In terms of profit, the company booked an interim operating loss due to both declining gross margins in the pet-related department and increased SG&A expenses from business restructuring, while maintaining its full-year profit forecast.

Results trend in the Animal Health Care business



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

Results trends

In 1H FY11/25, core businesses performed solidly, delivering higher net sales and a substantial rise in operating profit

1. Overview of 1H FY11/25

In 1H FY11/25, net sales rose, and operating profit increased significantly YoY. Consolidated net sales increased 10.4% to ¥131,253mn, operating profit increased 20.4% to ¥5,886mn, ordinary profit declined 6.4% to ¥5,732mn, and 1H net profit attributable to owners of parent declined 5.9% YoY to ¥4,051mn.

Net sales recorded double-digit growth, driven by increases in the core businesses such as Energy & Solutions, Engineering & Maintenance, and Housing business. In Energy & Solutions business (up ¥3,683mn YoY), higher sales volume of residential and commercial city gas was the main driver. In the Engineering & Maintenance business (up ¥2,451mn YoY), completed projects increased across all departments—equipment installation, civil engineering, construction, and maintenance services. In Housing business (up ¥4,906mn YoY), orders increased at the Housing Materials Processing & Sales department, and results of YASUE were included in the consolidated results. Operating profit growth was mainly driven by contributions from Energy & Solutions business (up ¥1,081mn YoY) and Engineering & Maintenance business (up ¥654mn YoY). Ordinary profit decreased due to ¥430mn in derivative valuation losses on foreign exchange contracts (vs. ¥892mn gains in the prior period) booked as non-operating expenses. This stems from long-term foreign exchange contracts executed to mitigate currency risk in our biomass power generation business (which primarily uses imported fuel). It should be noted that these are non-cash valuation gains/losses.

Consolidated results for 1H FY11/25

(¥mn)

	1H FY11/24		1H FY11/25		
	Result	Vs. net sales	Result	Vs. net sales	YoY
Net sales	118,897	100.0%	131,253	100.0%	10.4%
Cost of sales	88,823	74.7%	98,397	75.0%	10.8%
Gross profit	30,074	25.3%	32,856	25.0%	9.3%
Selling, general and administrative expenses	25,185	21.2%	26,969	20.5%	7.1%
Operating profit	4,889	4.1%	5,886	4.5%	20.4%
Ordinary profit	6,127	5.2%	5,732	4.4%	-6.4%
Interim Profit attributable to owners of parent	4,304	3.6%	4,051	3.1%	-5.9%

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

Maintaining sound finances to support aggressive investment in growth and M&A; healthy equity ratio of 41.5%

2. Financial position and key management indicators

Total assets as of end-1H FY11/25 were ¥6,799mn, up ¥209,080mn from the end of the previous fiscal year. Of this amount, current assets increased by ¥3,122mn, primarily driven by a ¥3,464mn rise in cash and deposits. Non-current assets increased ¥3,677mn. This was primarily driven by a ¥2,405mn increase in property, plant and equipment assets and a ¥1,956mn rise in intangible fixed assets.

Total liabilities increased ¥4,007mn from the end of the previous fiscal year to ¥120,670mn. Current liabilities decreased by ¥2,934mn, primarily due to a ¥3,451mn decline in notes payable, accounts payable, and electronically recorded debts. Non-current liabilities increased ¥6,943mn, largely due to a ¥6,852mn rise in long-term borrowings. The balance of interest-bearing debt (total of short-term borrowings, current portion of long-term borrowings, and long-term borrowings) rose ¥7,013mn to ¥61,623mn. Net assets increased ¥2,792mn to ¥88,410mn. This was mainly due to an increase in retained earnings, reflecting the booking of interim net profit attributable to owners of parent.

Looking at management indicators, the current ratio was 153.9% (versus 141.8% at end-FY11/24) and the equity ratio was 41.5% (41.5%), indicating the Company's finances are sound and stable. The Company is maintaining a solid financial base to support aggressive investment in growth (roughly ¥50.0bn at the end of FY11/30) and in M&A. However, ROE was only 6.5% (FY11/24). To tackle this issue, the Company is currently implementing operational and financial measures to lift ROE.

Consolidated balance sheets and key management indicators

(¥mn)

	End of FY11/24	FY11/25 End of 1H	Change
Current assets	89,235	92,357	3,122
Cash and deposits	26,396	29,860	3,464
Notes and accounts receivable - trade, and contract assets; electronically recorded receivables	37,606	35,898	-1,708
Non-current assets	113,045	116,722	3,677
Property, plant and equipment	80,210	82,615	2,405
Intangible fixed assets	4,570	6,526	1,956
Total assets	202,281	209,080	6,799
Current liabilities	62,943	60,009	-2,934
Short-term borrowings	5,990	5,805	-185
Current portion of long-term borrowings	8,234	8,580	346
Notes payable, accounts payable, and electronically recorded obligations	30,286	26,835	-3,451
Non-current liabilities	53,718	60,661	6,943
Long-term borrowings	40,386	47,238	6,852
Total liabilities	116,662	120,670	4,007
Total net assets	85,618	88,410	2,792
Retained earnings	45,859	48,726	2,867
Total liabilities and net assets	202,281	209,080	6,799
<Stability>			
Current ratio (current assets ÷ current liabilities)	141.8%	153.9%	-
Equity ratio (shareholders' equity ÷ total assets)	41.5%	41.5%	-

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

Outlook

With the three core businesses remaining firm, the Company expects net sales and operating profit to reach record highs in FY11/25

● FY11/25 forecast

For FY11/25, the Company forecasts record-high net sales and operating profit, with consolidated net sales up 9.4% YoY to ¥263,000mn, operating profit up 14.1% to ¥7,200mn, ordinary profit down 6.0% to ¥7,700mn, and net profit attributable to owners of parent down 2.8% to ¥5,100mn*. For ordinary profit and profit attributable to owners of parent, it does not include a gain on valuation of derivatives, which was recorded under non-operating income in FY11/24 (¥1,077mn).

* Revised forecast taking into account the impact of the consolidation of YASUE in April 2025.

The Company is currently implementing its 5th Medium-Term Management Plan (FY11/23–FY11/25). In FY11/25, the plan's final year, it aims to create new value through collaboration and co-creation with internal and external companies and through aggressive investment in growth, while also targeting growth through business transformation to solve issues faced by customers and regional communities. In particular, following the consolidation of YASUE in December 2024, the Group will pursue transformative growth in the housing sector — as outlined in its 2030 Vision — by harnessing synergies between its existing businesses and the housing/lifestyle domain, including renovation services.

By business segment, it sees net sales rising in all six segments and operating profit increasing in four segments (except for the Engineering & Maintenance business, and the Car Life Support business). In the Energy & Solutions business, it aims to expand its business by offering energy-efficient and carbon-neutral solutions and by starting operations in the energy storage business. In the Engineering & Maintenance business, it plans to capture orders supported by stable public investment and expand its business by contributing to decarbonization through energy conservation, energy creation, and carbon offsetting, and by proposing ZEBs. In the Housing Business, the Company will steadily deliver the high-performing "SINKA" series and focus on sales of built-for-sale homes. In the Car Life Support business, the Company will focus on new-car sales as supply recovers. In Animal Health Care business, the Company will utilize the time saved through completion of sales-logistics separation and warehouse consolidation to strengthen its sales capabilities. In the Properties business, the Company will focus on the real estate investment business launched this fiscal year within the real estate division, aiming to expand transaction volume in the property market.

The 1H progress rate against the full-period forecast showed smooth net sales at 49.9% and strong operating profit at 81.8%. With the three core businesses (Energy & Solutions, Engineering & Maintenance, and Housing) performing well and other segments turning profitable on prior measures, we see a high likelihood of achieving the full-year targets.

Consolidated results outlook for FY11/25

(¥mn)

	FY11/24		FY11/25			
	Result	Vs. net sales	Forecast	Vs. net sales	YoY	1H progress rate
Net sales	240,498	100.0%	263,000	100.0%	9.4%	49.9%
Operating profit	6,308	2.6%	7,200	2.7%	14.1%	81.8%
Ordinary profit	8,193	3.4%	7,700	2.9%	-6.0%	74.4%
Profit attributable to owners of parent	5,249	2.2%	5,100	1.9%	-2.8%	79.4%

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

Growth strategy and topics

Aiming for expansion in non-energy fields to establish position as “SALA for all aspects of life”

1. 2030 Vision and the progress of 5th Medium-Term Management Plan

The Company is working toward its 2030 Vision, “SALA: Common in Your Town, Value to Your Life.” Under this Vision, it has set five goals: 1) establish the SALA brand, 2) boost quality, 3) achieve dramatic growth in the housing business, 4) develop highly motivated talent taking on the challenge autonomously, and 5) enhance social value. The Company has grown mainly in the energy domain, but its 2030 Vision sets out a clear strategy to provide new value in people’s lives by expanding non-energy business areas (such as housing and engineering), while leveraging its combined strengths as a corporate group across different business units. It is targeting net sales of ¥280.0bn and operating profit of ¥12.0bn in FY11/30. Compared with FY11/24 results, that represents increases of 1.16x for net sales and 1.90x for operating profit. To date, the Company has achieved significant results—including the expansion of its renovation business through the consolidation of YASUE and growth in its power generation and Engineering & Maintenance businesses—laying a solid foundation for reaching its targets.

Under the 5th Medium-Term Management Plan, the Company aims to aggressively invest in growth (total of ¥15.0bn over three years) to transform its business and create new value. At the end of two and a half years, the cumulative investment reached ¥14.7bn, indicating smooth progress. The investments are allocated specifically as follows: ¥7.0bn to GX/new sectors (including grid storage facilities), ¥1.6bn to DX, ¥1.5bn to human capital, and ¥4.6bn to capital alliances & M&A.

2. Launch of the energy storage business to accelerate growth in the power business

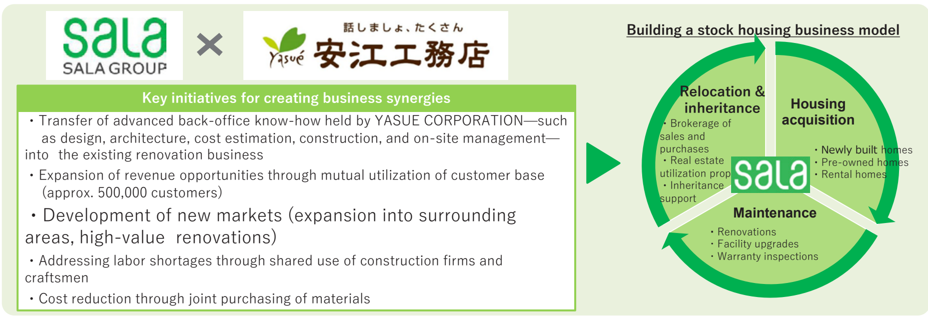
The Company entered the retail electricity business in 2016 and has been nurtured the business. To date, beyond power retailing, it has supported customers’ energy saving and carbon neutrality through initiatives such as solar power generation, storage batteries, and cogeneration systems. During FY11/25, the Company will commence operation of two grid-scale storage plants. Specifically, the SALA Hamamatsu Storage Station (NAS® battery; output 11,400 kW; capacity 69,600 kWh) and the SALA Higashimikawa Storage Station (lithium-ion battery; output 1,999 kW; capacity 7,520 kWh) will begin operation, with the aims of providing balancing capacity for renewable-energy integration and maintaining power quality. Looking ahead, the Company is considering entry into aggregation business, where customers’ energy savings (negawatts) are traded in the power market. By returning electricity bill savings to customers, the Company aims to acquire new customers and establish this as a new earnings stream. Under its long-term vision, the Company aims to increase net sales by over 40% from the current ¥16.0bn to ¥23.0bn by 2030.

3. Bringing YASUE in as a subsidiary and advancing its integration.

In February 2025, the Company made YASUE a wholly owned subsidiary. In FY12/24, YASUE reported net sales of ¥8,082mn, operating profit of ¥340mn, and net assets of ¥2,588mn. The home renovation business generates more than 80% of YASUE’s sales. In this business, it provides comprehensive services for a wide range of price points and customers, from the replacement and maintenance of screen doors in detached houses and condominiums to design-oriented remodeling and renovation using natural materials, as well as building extensions. Through the integration of YASUE into the Group, the company’s renovation business net sales are projected to expand from ¥10bn to approximately ¥16bn.

Integration with YASUE is now underway. By transferring the advanced back-office expertise held by YASUE—such as including design, architecture, cost estimation, construction, and on-site management—into the existing renovation business, the Company aims to enhance the profitability of its business model. As YASUE's core area is the Nagoya—Owari region, the Company will expand revenue opportunities through mutual utilization of the customer bases (approx. 500,000 customers), develop new markets (expansion into surrounding areas; high-value renovations), address labor shortages through shared use of construction firms and craftsmen, and pursue cost reductions through joint purchasing of materials. The Company intends to strengthen its stock business model (purchase → maintenance including renovations → resale/inheritance) by generating synergies that leverage both parties' strengths.

Initiatives toward dramatic growth in the Housing sector



Source: Published from financial results and Medium-Term Management Strategy Briefing materials

4. Management conscious of cost of capital and share price

The Company recognizes that improving the P/B ratio is a key management issue. After discussions at meetings of the Board of Directors and the Nomination & Remuneration Committee, it has implemented a raft of initiatives in quick succession.

Initiatives to realize management conscious of cost of capital and share price

Date	Initiative	Details
July 2024	Disclosure of capital allocation policy	Of the ¥100.0bn cash inflow projected for 2024~2030, the Company will allocate half (¥50.0bn) to growth investments and one-quarter (¥25.0bn) each to investment in maintenance/upgrades and to shareholder returns
July 2024	Change in dividend policy	The Company has decided to flexibly repurchase shares and raise the payout ratio to improve shareholder returns and maintain the equity ratio at 40~50% as it works to achieve ROE of 10% or more
October 2024	Change in shareholder benefit plans	To expand the number of individual shareholders, who provide lower-bound support to the share price, the Company has established a new benefit category for shareholders with 2,000 or more shares and added long-term benefit plans for shareholders who hold shares for 3, 5, and 10 years
February 2025	Performance-linked stock compensation for directors	The Company has introduced a stock compensation scheme linked to consolidated ROE, consolidated operating profit, and ESG indicators (reductions in CO_2 emissions) to encourage directors to deliver medium- to long-term improvement in corporate value from the same perspective as investors. Stock compensation will now account for 20% of director remuneration

Source: The Company's materials

Over the years, continued profit growth and increasing shareholders' equity have led to slower improvement in ROE. As of end-FY11/24, ROE was 6.5%, down 1.7 percentage points from the end of the previous fiscal year. The Company aims to improve capital efficiency in order to increase ROE. It plans to invest heavily in growth and implement financial strategies, aiming for ROE of 10% or higher by 2030.

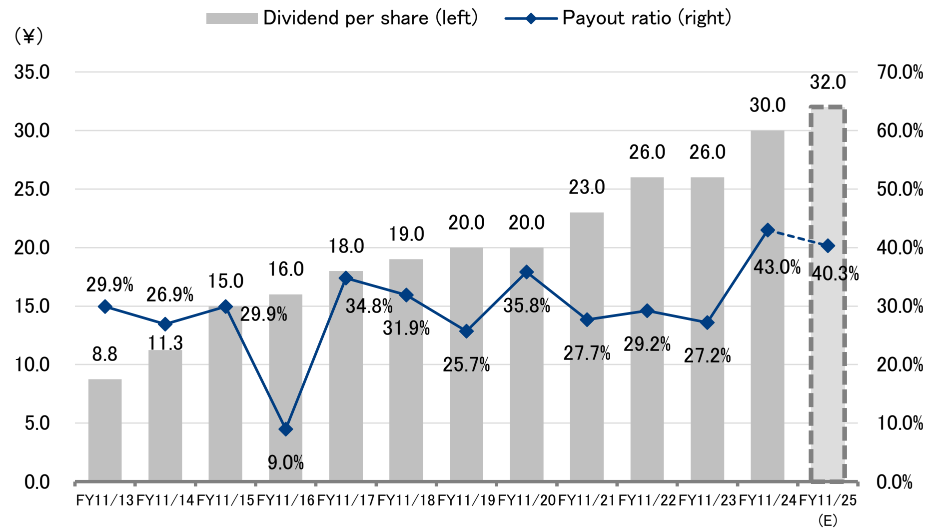
Regarding PBR improvement, during the Q&A session of the financial results briefing held on July 17, 2025, when asked by an investor about the timeline to achieve a PBR of 1.0x, the Company responded that it aims to reach this target within three years at the latest.

Shareholder return policy

The Company has adopted a progressive dividend policy, raising its target payout ratio from the previous 30% to over 40%. For FY11/25, the Company plans an annual dividend of ¥32.0, an increase of ¥2.0 YOY

The Company's basic policy is to pay stable and continuous dividends to shareholders. The policy states that it is "targeting a consolidated payout ratio of 40% or higher excluding the effects of gain/loss on valuation of derivatives on forward exchange contracts while maintaining dividends that are equal to or higher than those of the previous fiscal year. Furthermore, the Company flexibly implements the purchase of treasury shares while considering the market environment and capital efficiency." Since FY11/2013, the annual dividend has continued to be maintained or increased. In July 2024, the Company raised its target dividend payout ratio from 30% to over 40%. As a result, the annual dividend for FY11/24 amounted to ¥30.0 per share (interim: ¥13.0; year-end: ¥17.0), achieving a 43.0% payout ratio (excluding the impact of derivative valuation gains/losses). For FY11/25, the Company plans an annual dividend of ¥32.0 (interim ¥16.0 (implemented); year-end ¥16.0 (forecast)), with a payout ratio of 40.3%.

Trends in dividend per share and payout ratio



Note: The very low payout ratio in FY11/16 reflects significant negative goodwill arising from transactions to make CHUBU GAS and SALA HOUSE wholly owned subsidiaries.
Source: Prepared by FISCO from the Company's financial results

FISCO

Disclaimer

FISCO Ltd. ("FISCO") offers stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Exchange, and Nikkei Inc.

This report is provided solely for the purpose of offering information and is not a solicitation of investment nor any other act or action.

FISCO has prepared and published this report based on information it deems reliable. However, FISCO does not warrant the accuracy, completeness, certainty, nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs, and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report was prepared at the request of the subject company, with information provided by the company through telephone interviews and other means, and with compensation from the company. Hypotheses, conclusions and all other content contained in this report are based on FISCO's analysis. The contents of this report are current as of the date of preparation and are subject to change without notice. FISCO is not obligated to update this report.

FISCO and its affiliated companies, as well as the directors, officers, and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report with an understanding and acceptance of the above points.

■ For inquiries, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp