COMPANY RESEARCH AND ANALYSIS REPORT

SEMBA CORPORATION

6540

Tokyo Stock Exchange Standard Market

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Summary

A heavyweight in the interior and spatial design industry, delivering strong customer satisfaction with expertise in creating bustling places gained by creating commercial facilities

SEMBA CORPORATION <6540> (hereafter, also "the Company") is one of four major interior and spatial design companies in Japan. It has strong expertise in commercial facilities, with business covering extensive ground from specialty stores to large-scale stores and shopping centers. Over the past few years, it has also expanded its business scope to infrastructure facilities such as offices, medical and nursing care facilities, schools, and airports. In both areas, it features expertise in creating bustling places gained by creating commercial facilities, and is viewed highly as a partner in success proposing ways of making the most of space to enhance its value and satisfy customers' preferences. In recent years, it has adopted "Good Ethical Company" as its slogan, pursing new added value with consideration to people, the global environment, society, and local communities. The Company was founded in 1947, and began business manufacturing and selling display cases in Osaka. During the post-war economic boom, it expanded its business to interior finishing construction for stores. After that, it widened its scope to suburban shopping centers, chain stores, large-scale commercial facilities and so forth accompanying the advance of motorization. In 1984, it established a base in Hong Kong in step with overseas expansion by Japanese companies, embarking on business expansion in Asia. It now has bases in Taiwan, China (hereafter Shanghai), Singapore, Vietnam, and Malaysia. It has an extensive business track record with major developers including the Aeon Group (representative project: AEON LakeTown in Koshigaya) and Mori Building Co., Ltd. (representative project: Azabudai Hills). It had 520 employees as of December 31, 2024. Many of them are involved in design (about 40%) and supervision and construction management (about 30%). The Company listed on the Second Section of the Tokyo Stock Exchange (TSE) in 2016, was promoted to the First Section of the TSE in 2017, and transferred to the TSE Standard Market in 2022.

1. Business overview

The Company's sole segment is the commercial environment creation business. However, it manages operations by three market areas: specialty stores, large-scale stores & commercial complexes, and focus field (offices & leisure facilities, etc.). Specialty stores account for 30.6% of net sales, large-scale stores & commercial complexes for 45.1%, and focus field (offices & leisure facilities, etc.) for 24.3%. Overseas business accounts for 12.3% of net sales. The Company features expertise in creating bustling places gained by creating commercial facilities, and its capabilities in conception & design (design work) as well as construction are sources of strength. In recent years, it has been promoting building information modeling (BIM) to raise operational efficiency and productivity, and is an industry leader in BIM utilization. In particular, its use of 3D visualization has helped greatly to accelerate consensus building, deepening understanding with stakeholders and saving time to bring about more time for creative work. The percentage of its personnel with basic skills in BIM rose to 76% in FY12/24.

2. Results trends

In FY12/24 consolidated results, net sales rose 16.4% year-on-year (YoY) to ¥28,956mn and operating income grew a strong 49.0% to ¥1,918mn. Operating income was also a sharp 37.0% above initial plan (¥1,400mn). Net sales growth was driven by increases in sales of ¥1,647mn in the large-scale stores & commercial complexes field and ¥1,611mn in the focus field (offices & leisure facilities etc.). Specifically, the Company won projects for large-scale offices, infrastructure facilities, medical facilities, and educational facilities in urban areas by developing new markets, large-scale complex remodeling in regional cities, and large-scale dining entertainment building, large-scale specialty store, and other revamping work in Japan. Gross profit rose 27.7% YoY, reflecting increases in sales and the gross profit margin (up 1.8 percentage points (pp) YoY to 19.9%). The provision of high added-value, ongoing reduction of construction costs, and enhancement of productivity through operational efficiency gains and improvements contributed to higher profitability. SG&A expenses rose 19.2% YoY, relatively restrained growth despite an increase in personnel costs due mainly to salary increases and provisions for bonuses. As a result, operating income increased a sharp 49.0% YoY.

For FY12/25 consolidated results, the Company forecasts net sales growth of 10.5% YoY to ¥32,000mn and operating income growth of 9.5% to ¥2,100mn. In terms of its business climate, it expects heightened inbound and domestic demand to support ongoing brisker investment in spatial design for businesses, infrastructure facilities, leisure facilities, and so on. In addition, continued market growth in office spaces is likely, given strong demand for improving working environments with labor shortages becoming more serious. The Company forecasts net sales growth of 10.5% YoY, driven by strong demand. Its order backlog was ¥6,532mn at the end of FY12/24, reaching 20% of targeted net sales. Orders tend to be especially high in the specialty stores field and the focus field (offices, etc.). The Company plans to maintain profitability on par with the strong results in the previous fiscal year when operating income grew 9.5% YoY and the operating income margin was 6.6% (it was also 6.6% in the fiscal year before that). At FISCO, we think there is also upside potential to earnings partly since the Company's net sales and profit targets look somewhat conservative, given the thriving spatial design industry, growth in repeat customers (fans) driven by past accomplishments, etc., and upward revisions to the Company's forecasts at the end of fiscal year for the past two years.

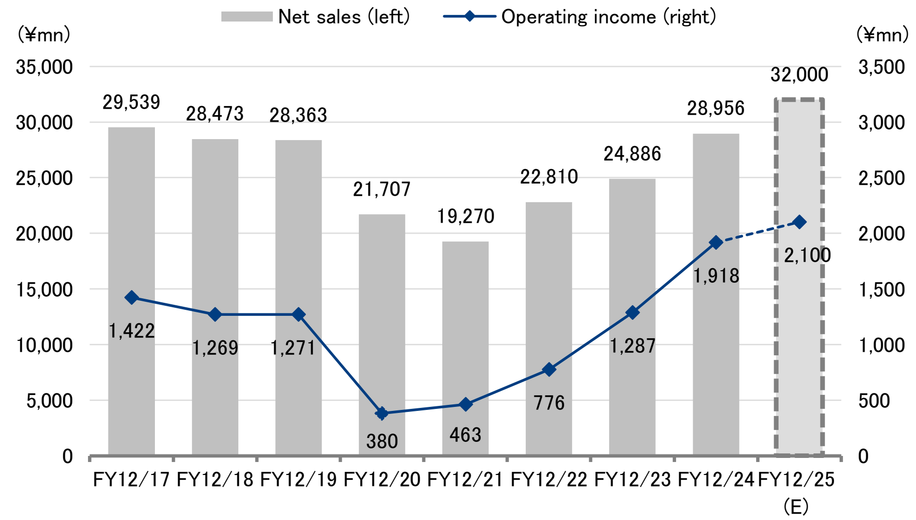
3. Growth strategy and topics

The Company established a new medium-term management plan covering the three years from FY12/25 to FY12/27. With "Create More Fun and More Fans!" as its slogan, the new medium-term plan sets out to deliver even higher added-value by focusing even more on customers. Its key themes are (1) attract and cultivate talent to create the future, (2) build a fan base as a good ethical company, (3) expand service fields and enhance value proposition, (4) establish supply chains to support sustainable growth, and (5) delve deeper into the global market. Its numerical targets for three years from now in FY12/27 include net sales of ¥40.0bn, operating income of ¥2.5bn, and profit attributable to owners of parent of ¥1.7bn. That works out to average annual growth in net sales of 11.4%, operating income of 9.2%, and profit attributable to owners of parent of 4.3%. Based on the Company's past results, those targets appear well within reach.

Key Points

- Delivers strong customer satisfaction with expertise in creating bustling places gained from creating commercial facilities. Strengths in utilizing digital technologies and capabilities in conception & design (design work) as well as construction
- In FY12/24, operating income rose 49.0% YoY to ¥1,918mn. Strong performance in fields such as large-scale stores & complexes and offices
- For FY12/25, forecasts growth in net sales to ¥32.0bn and operating income to ¥2.1bn. Strong demand in commercial facilities, offices, etc. driven by labor shortages and rise in inbound demand
- Established new medium-term management plan (up to FY12/27), targets net sales of ¥40.0bn and operating income of ¥2.5bn three years from now

Results trends



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

Company profile

Pursing new added value as a "Good Ethical Company"

1. Company profile and history

SEMBA is one of four major interior and spatial design companies in Japan. It has strong expertise in commercial facilities, with business covering extensive ground from specialty stores to large-scale stores and shopping centers. Over the past few years, it has also expanded its business scope to infrastructure facilities such as offices, medical and nursing care facilities, schools, and airports. In both areas, it features expertise in creating bustling places gained by creating commercial facilities, and is viewed highly as a partner in success proposing ways of making the most of space to enhance its value and satisfy customers' preferences. In recent years, it has adopted "Good Ethical Company" as its slogan, pursing new added value with consideration to people, the global environment, society, and local communities.

The Company was founded in 1947, and began business manufacturing and selling display cases in Osaka. During the post-war economic boom, it expanded its business to interior finishing construction for stores. After that, it widened its scope to suburban shopping centers, chain stores, large-scale commercial facilities and so forth accompanying the advance of motorization. In 1984, it established a base in Hong Kong in step with overseas expansion by Japanese companies, embarking on business expansion in Asia. It now has bases in Taiwan, China (hereafter Shanghai), Singapore, Vietnam, and Malaysia. It has an extensive business track record with major developers including the Aeon Group (representative project: AEON LakeTown in Koshigaya) and Mori Building (representative project: Azabudai Hills). It had 520 employees as of December 31, 2024. Many of them are involved in design (about 40%) and supervision and construction management (about 30%). The Company listed on the Second Section of the TSE in 2016, was promoted to the First Section of the TSE in 2017, and transferred to the TSE Standard Market in 2022.

History

Date	Outline
July 1947	Founder Shiro Kuriyama opened Kuriyama Display Case Shop to sell showcases and display fixtures (Higashi-ku, Osaka City)
February 1962	Semba Window Co., Ltd. (now SEMBA CORPORATION) established in Nihonbashi Kodenmacho, Chuo-ku, Tokyo
December 1967	Osaka Design Office (now Kansai Branch Office) opened
February 1968	Semba Window Co., Ltd. renamed SEMBA CORPORATION, head office relocated to Yaesu, Tokyo
September 1968	Tempo Sobi Co., Ltd. established
March 1971	Sapporo Sales Office (now Hokkaido Branch Office) opened
January 1974	Sendai Branch Office (now Tohoku Branch Office) opened
April 1974	Fukuoka Design Office (now Kyushu Branch Office) opened
June 1974	Tempo Sobi Co., Ltd. renamed Semba Sobi Industry Co., Ltd.
September 1980	Nagoya Branch Office (now Chubu Branch Office) opened
August 1984	Hong Kong Semba Ltd. established (now closed)
January 1985	Semba Sobi Industry Co., Ltd. renamed Sobi Kogyo Co., Ltd.
November 1987	TAIWAN SEMBA CO., LTD. established (now a consolidated subsidiary)
July 1989	Sobi Kogyo Co., Ltd. renamed Sobi Corporation (now a consolidated subsidiary)
April 1990	SEMBA SINGAPORE PTE. LTD. established (now a consolidated subsidiary)
November 1991	SEMBA's Izumo Industrial Complex (now Sobi Corporation's Izumo Factory) completed
April 2005	Nonscale Corporation established
September 2006	SEMBA (SHANGHAI) CO., LTD. established (now a consolidated subsidiary)
March 2013	SEMBA VIETNAM CO., LTD. established (now a consolidated subsidiary)
May 2013	Nonscale Corporation Taipei Office established
December 2016	Listed on Second Section of TSE
December 2017	Reassigned to First Section of TSE
April 2019	SEMBA MALAYSIA DESIGN & CONSTRUCTION SDN. BHD. established
April 2022	Transferred to TSE Standard Market

Source: Prepared by FISCO from the Company's annual securities reports

2. Business description

SEMBA's sole segment is the commercial environment creation business. However, it manages operations by three market fields: specialty stores, large-scale stores & commercial complexes, and focus field (offices & leisure facilities, etc.). Specialty stores account for 30.6% of net sales, large-scale stores & commercial complexes for 45.1%, and focus field (offices & leisure facilities, etc.) for 24.3%. Overseas business accounts for 12.3% of net sales (all shares of net sales are for FY12/24).

Overview of market fields

Field	Overview	Share of net sales (FY12/24)
Specialty stores	Specialty goods stores, restaurants, specialty service stores, etc.	30.6%
Large-scale stores & commercial complexes	Department stores, mass-market retail shops, commercial buildings, shopping centers etc.	45.1%
Focus field (offices & leisure facilities, etc.)	Offices, showrooms, hotels, educational facilities, etc.	24.3%
Companywide total		100.0%
(Reference) Overseas business	Interior and spatial design business overseas mainly in Asia	12.3%

Source: Prepared by FISCO from the Company's financial results and annual securities reports

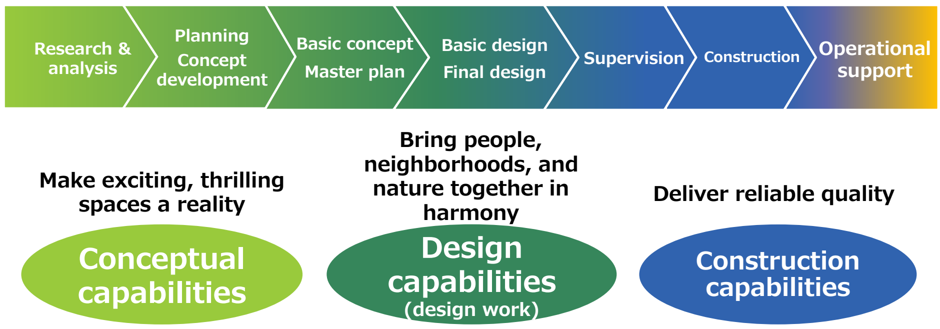
Business overview

Raising customer satisfaction with expertise in creating bustling places. Strengths in utilizing conceptual, design, and construction capabilities, as well as DX technology

1. Business fields and strengths

With a focus on commercial facilities, SEMBA is capable of undertaking the entire interior design process in an integrated fashion. Although its mainstays are design, supervision, and construction, it also provides services prior to that such as marketing research and analysis, planning and concept development, and basic and master planning. In addition, it provides post-construction services including repairs and operational assistance. It features expertise in creating bustling places gained by creating commercial facilities, and its capabilities in conception and design (design work) as well as construction are sources of strength.

Expertise in creating bustling places



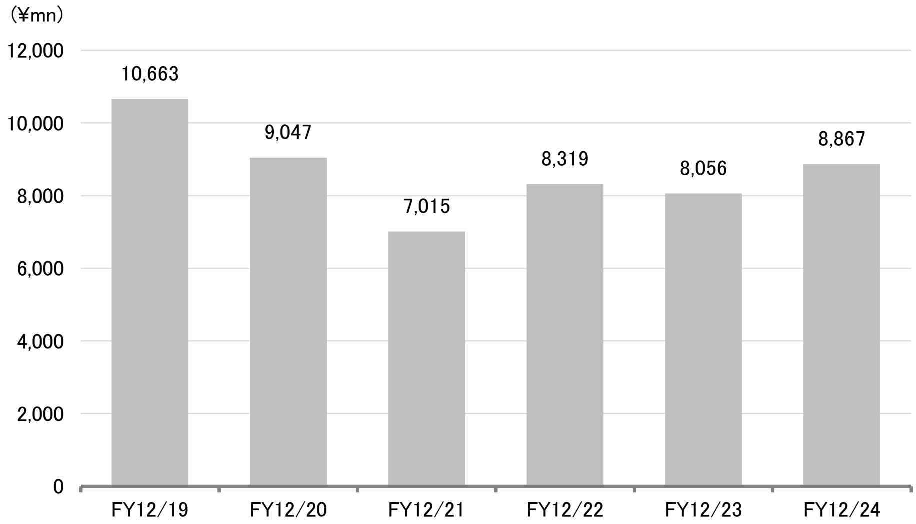
Source: The Company's results briefing materials

In recent years, the Company has been promoting BIM to raise operational efficiency and productivity, and is an industry leader in BIM utilization. In particular, its use of 3D visualization has helped greatly to accelerate consensus building, deepening understanding with stakeholders and saving time to bring about more time for creative work. The percentage of its personnel with basic skills in BIM reached 76% in FY12/24.

2. Specialty stores field

The specialty stores field covers specialty goods stores, restaurants, and specialty service stores. Clients are mainly chain stores, but projects are small in scale. Although the Company initially focused on apparel and other retail shops in this field with a long history, it now also has significant business in the services and food and beverage industries. Earnings declined during the Covid-19 pandemic, but gradually picked up thereafter. Projects last about three months.

Specialty stores field: Net sales trends

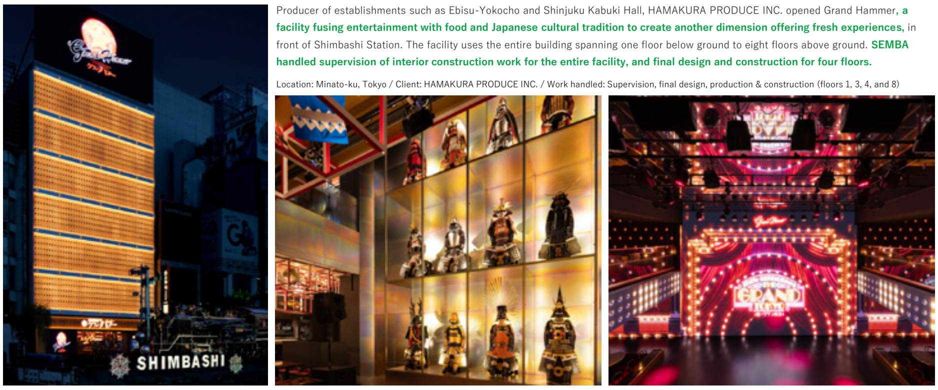


Source: The Company's results briefing materials

3. Large-scale stores & commercial complexes field

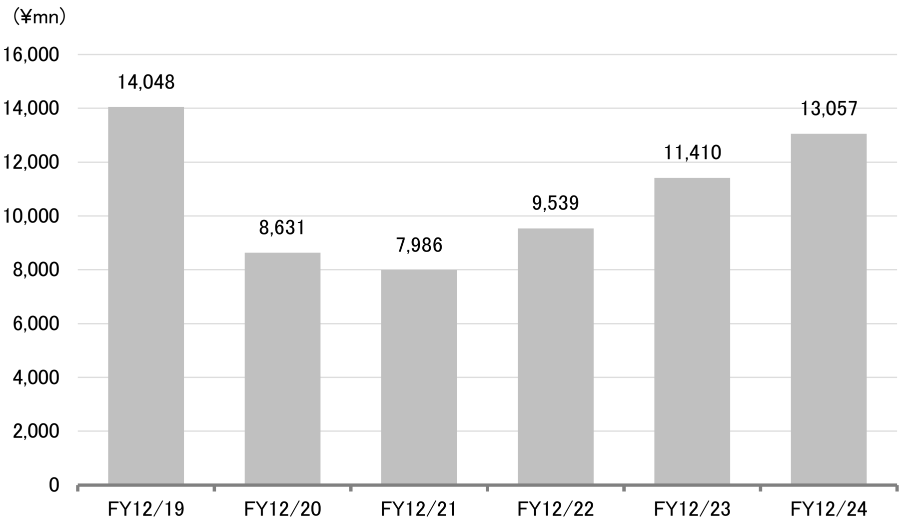
The large-scale stores & commercial complexes field covers department stores, mass-market retail shops, commercial buildings, and shopping centers, and accounts for the largest share of the Company's net sales. Earnings slumped during the Covid-19 pandemic, but have been on a V-shaped recovery since FY12/22, with sharp sales growth in the latest fiscal year amid a trend towards larger projects. In this field, the Company also has a lot of business with the AEON Group, and net sales reached ¥6,213mn (FY12/24). Large-scale projects take from six months to one year. As an example in FY12/24, the Company handled design and construction work for Grand Hammer (spotlighted facility that opened in front of Shimbashi SL Square in Minato-ku, Tokyo).

Grand Hammer



Source: The Company's results briefing materials

Large-scale stores & commercial complexes field: Net sales trends



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

4. Focus field (offices & leisure facilities, etc.)

The focus field (offices & leisure facilities, etc.) covers offices, showrooms, hotels, and educational facilities. Commercial facility market development accelerated following the Covid-19 pandemic slump. For offices and showrooms, continued market growth looks promising as there is strong demand for improving working environments amid worsening labor shortages. For wellbeing and hospitality, strong demand is anticipated on tailwinds from the aging of society and remodeling of airports and other infrastructure facilities due to heightened inbound demand. For educational facilities, there are opportunities in renovation to address aging facilities and make facilities more attractive to acquire students. The Company also handles projects for leisure facilities such as golf courses. As an example of its office-related work in FY12/24, it handled the final design and production & construction for Mitsui Chemicals, Inc.'s <4183> Creation Palette YAE® co-creation space. It also handled the interior design for the food hall and hot spring facilities at Nagasaki Stadium City, which brings together sports and entertainment.

Creation Palette YAE®

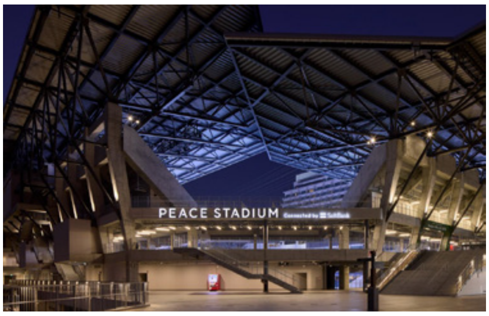
Mitsui Chemicals, a diversified chemicals company with global operations, opened at its headquarters the co-creation space Creation Palette YAE®. SEMBA was in charge of final design support through construction. To accomplish the challenging task of creating the fixtures composing smooth curves, **BIM was also utilized at the construction stage for examination and visualization in 3D of the final shapes,** how they fit into the space, and so forth. **This enabled high-quality reproduction without significant changes from the initial design.**

Location: Chuo-ku, Tokyo
Client: Mitsui Chemicals, Inc.
Planning: Loftwork Inc.   Basic design: axonometric Inc.
Work handled: Final design support, production & construction

Source: The Company's results briefing materials

Nagasaki Stadium City

Japanet Holdings spearheaded this large complex. SEMBA handled the design of the common signs throughout the complex, common environment for the commercial area, food hall, and hot springs facilities. In planning signs, **BIM data prepared by the construction company was also used to plan interior design,** helping to confirm designs of course and to promptly discover issues such as interference from rain gutters. For the hot springs, the Company created facilities unique to the region with **a sauna incorporating as a motif the blend of Japanese, Chinese, and Dutch culture unique to Nagasaki and an infinity footbath overlooking Nagasaki Bay.**



Location: Nagasaki City, Nagasaki Prefecture
Client: Japanet Holdings
Work handled: Interior design (common signs throughout the complex, common environment for the commercial area, food hall, and hot springs facilities)
Photo by: © Nacása & Partners Inc., FUTA Moriishi

Source: The Company's results briefing materials

Focus field sales trends

(¥mn)

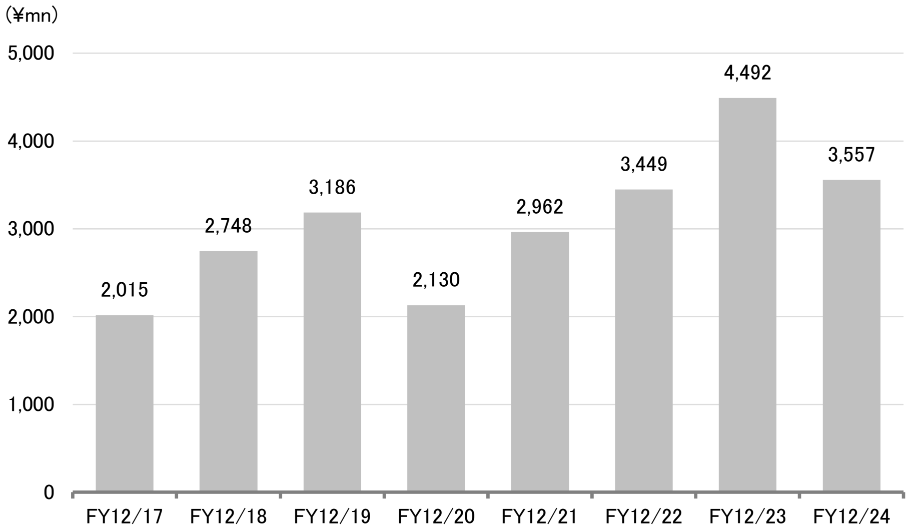
	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23	FY12/24	YoY change
Focus field total	3,651	4,028	4,268	4,952	5,420	7,031	1,611
Offices & showrooms	-	-	-	1,840	3,292	3,976	684
Wellbeing & hospitality	-	-	-	1,818	1,594	2,259	665
Educational	-	-	-	639	365	350	-15
Public, etc.	-	-	-	653	167	445	278

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

5. Overseas business

Since embarking on overseas business in Hong Kong in the 1980s, the Company has established a track record in Asia. Although orders fluctuate each year, earnings are steadily expanding. Taiwan accounted for the largest share of overseas net sales in FY12/24 at ¥2,548mn, followed by Vietnam (¥410mn), Shanghai (¥401mn), and Singapore (¥300mn). The Company has fundamentally expanded business overseas in step with Japanese companies hitherto, but looks to develop business with local companies as well moving forward.

Overseas business: Net sales trends



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

6. KPIs

Under its previous medium-term management plan, the Company advanced environmental, digital transformation (DX), overseas development, and other initiatives, as well as monitored key performance indicators (KPIs). On the environmental front, it is making solid progress with the percentage of waste recycled at 94% in FY12/24 (86% in FY12/21) and the percentage of ethical material use at 49% (23% in FY12/23). In DX initiatives, it succeeded in significantly strengthening the percentage of its personnel with basic skills in BIM to 76% (38% in FY12/21). Also, overseas net sales are on an uptrend at ¥3.5bn (¥2.9bn in FY12/21).

7. Benchmarks in the spatial design industry

The Company's earnings are on par with three relatively large companies in the spatial design industry. Its return on equity (ROE), an indicator of profitability and efficiency, is top class, and its shareholders' equity ratio, an indicator of stability, is in line with industry peers due to debt-free operations. It is also close to the leader in terms of growth potential, at the upper 10% level.

Results comparison for spatial design industry

Industry companies	Profitability & efficiency (ROE)	Stability (shareholders' equity ratio)	Growth potential (latest fiscal year/fiscal year before that)
NOMURA <9716>	12.9%	53.0%	12.0%
TANSEISHA <9743>	11.9%	61.6%	13.1%
SPACE <9622>	8.1%	79.6%	21.6%
SEMBA	11.6%	58.4%	16.4%

Source: Prepared by FISCO from the respective companies' financial results

Results trends

In FY12/24, operating income rose 49.0% YoY to ¥1,918mn. Brisk momentum in fields like large-scale stores & complexes as well as offices

1. Overview of FY12/24 results

In FY12/24 consolidated results, net sales rose 16.4% YoY to ¥28,956mn, operating income grew 49.0% to ¥1,918mn, ordinary income increased 47.2% to ¥2,006mn, and profit attributable to owners of parent rose 45.0% to ¥1,499mn. Strong profit growth was thus achieved, and operating income topped initial plan (¥1,400mn) by a large 37.0%.

The Company's operating environment was marked by lively capital investment not only in the commercial field but also in space creation at offices, infrastructure facilities, and leisure facilities, although there were also some uncertainties such as greater challenges on the profitability front due to growth in personnel costs, building material prices, and so forth.

Net sales growth was driven by increases in sales of ¥1,647mn in the large-scale stores & commercial complexes field and ¥1,611mn in the focus field (offices & leisure facilities, etc.). Specifically, the Company won projects for large-scale offices, infrastructure facilities, medical facilities, and educational facilities in urban areas by developing new markets, large-scale complex remodeling in regional cities, and large-scale dining entertainment building, large-scale specialty store, and other revamping work in Japan. Overseas sales declined ¥935mn YoY to ¥3,557mn, accounting for 12.3% of the Company's total sales (18.1% in the previous fiscal year). Gross profit rose 27.7% YoY, reflecting increases in sales and the gross profit margin (up 1.8pp YoY to 19.9%). The provision of high added-value, ongoing reduction of construction costs, and enhancement of productivity through operational efficiency gains and improvements contributed to higher profitability. SG&A expenses rose 19.2% YoY, relatively restrained growth despite an increase in personnel costs due mainly to salary increases and provisions for bonuses. As a result, operating income increased a sharp 49.0% YoY. Ordinary income includes foreign exchange gains.

FY12/24 results

(¥mn)

	FY12/23		FY12/24		
	Results	% of net sales	Results	% of net sales	YoY
Net sales	24,886	100.0%	28,956	100.0%	16.4%
Cost of sales	20,378	81.9%	23,201	80.1%	13.9%
Gross profit	4,507	18.1%	5,755	19.9%	27.7%
SG&A expenses	3,220	12.9%	3,837	13.3%	19.2%
Operating income	1,287	5.2%	1,918	6.6%	49.0%
Ordinary income	1,363	5.5%	2,006	6.9%	47.2%
Profit attributable to owners of parent	1,033	4.2%	1,499	5.2%	45.0%

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

Highly stable with shareholders' equity ratio of 58.4% due to debt-free operations, plenty of room for M&A in the future

2. Financial position and management indicators

Total assets increased to ¥23,320mn at the end of FY12/24, up ¥3,745mn from the end of the previous fiscal year. Within that, current assets rose ¥3,269mn, mainly because cash and deposits increased ¥3,174mn. Non-current assets rose ¥475mn, chiefly reflecting an increase in investments and other assets.

Total liabilities were ¥9,696mn, up ¥2,367mn from the end of the previous fiscal year. Within that, current liabilities rose ¥2,320mn, mainly reflecting a ¥1,648mn increase in trade payables (notes and accounts payable - trade, electronically recorded obligations-operating). Non-current liabilities were largely unchanged. The Company has no interest-bearing debt and operates debt-free. Net assets rose ¥1,377mn to ¥13,624mn. This mainly owes to an increase in retained earnings from the posting of profit attributable to owners of parent.

In management indicators (at the end of FY12/24), the current ratio of 221.5% (247.6% at the end of the previous fiscal year) and shareholders' equity ratio of 58.4% (62.6%) point to sustained high stability. In terms of efficiency and profitability, ROE (net income ÷ shareholders' equity) exceeded 10% at 11.6% (8.8% in the previous fiscal year). The Company's highly stable and profitable business model is reflected in its finances. It has sufficient capacity for investment as it charts out a strategy for growth including though M&A in the future.

Consolidated balance sheets and management indicators

(¥mn)

	End-FY12/23	End-FY12/24	Change
Current assets	17,703	20,972	3,269
Cash and deposits	9,315	12,489	3,174
Accounts receivable - trade	7,122	7,229	107
Non-current assets	1,871	2,347	475
Investments and other assets	1,106	1,590	483
Total assets	19,574	23,320	3,745
Current liabilities	7,148	9,469	2,320
Trade payables	5,114	6,762	1,648
Non-current liabilities	179	226	47
Total liabilities	7,328	9,696	2,367
Total net assets	12,246	13,624	1,377
Retained earnings	9,966	10,946	979
Total liabilities and net assets	19,574	23,320	3,745
<Stability>			
Current ratio (current assets ÷ current liabilities)	247.6%	221.5%	-26.1pp
Equity ratio (shareholders' equity ÷ total assets)	62.6%	58.4%	-4.2pp
<Profitability & efficiency>			
ROE (net income ÷ shareholders' equity)	8.8%	11.6%	2.8pp
ROA (ordinary income ÷ total assets)	7.4%	9.4%	2.0pp
ROS (operating income ÷ net sales)	5.2%	6.6%	1.4pp

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

Outlook

For FY12/25, forecasts growth in net sales to ¥32.0bn and operating income to ¥2.1bn. Strong demand in commercial facilities, offices, etc. driven by labor shortages and rise in inbound demand

For FY12/25 consolidated results, the Company forecasts net sales will rise 10.5% YoY to ¥32,000mn, operating income grow 9.5% to ¥2,100mn, ordinary income increase 4.7% to ¥2,100mn, and profit attributable to owners of parent decline 3.3% to ¥1,450mn.

In terms of its business climate, it expects heightened inbound and domestic demand to support ongoing livelier investment in space creation for the commercial domain, infrastructure facilities, leisure facilities, and so on. In addition, continued market growth in office spaces is likely, given strong demand for improving working environments with labor shortages becoming more serious.

The Company forecasts net sales growth of 10.5% YoY, underpinned by robust demand. It launched its new medium-term management plan (described in detail in the next section) in the fiscal year underway, and has started working on initiatives in line with five key themes. The themes “build a fan base as a good ethical company” aimed at expanding orders by strengthening relationships with clients, partners, and other stakeholders, “expand service fields and enhance value proposition” entailing clearly transforming tasks yet to be successfully converted to value into services providing added value, and “delve deeper into the global market” looking to strong growth potential in the Asia market will probably be key to sales growth. The Company’s order backlog was ¥6,532mn at the end of FY12/24, reaching 20% of targeted net sales. Orders tend to be especially high in the specialty stores field and the focus field (offices, etc.). The Company plans to maintain profitability on par with the strong results in the previous fiscal year when operating income grew 9.5% YoY and the operating income margin was 6.6% (it was also 6.6% in the fiscal year before that). At FISCO, we think there is also upside potential to earnings partly since the Company’s net sales and profit targets look somewhat conservative, given the thriving spatial design industry, growth in repeat customers (fans) driven by past accomplishments, etc., and upward revisions to the Company’s forecasts at the end of fiscal year for the past two years.

FY12/25 forecast

(¥mn)

	FY12/24		FY12/25		
	Results	% of net sales	Forecast	% of net sales	YoY
Net sales	28,956	100.0%	32,000	100.0%	10.5%
Operating income	1,918	6.6%	2,100	6.6%	9.5%
Ordinary income	2,006	6.9%	2,100	6.6%	4.7%
Profit attributable to owners of parent	1,499	5.2%	1,450	4.5%	-3.3%

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

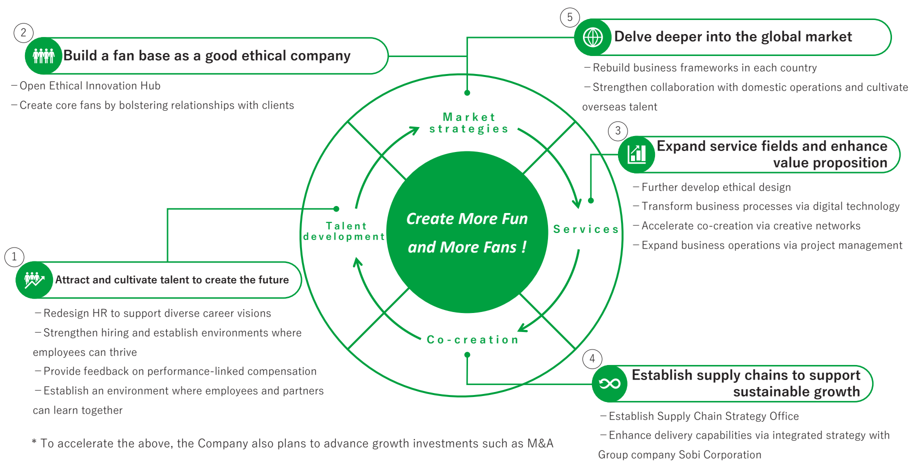
Growth strategy and topics

Established a new medium-term management plan. Targets net sales of ¥40.0bn and operating income of ¥2.5bn in FY12/27, the plan's final year

The Company established a new medium-term management plan covering the three years from FY12/25 to FY12/27. For every year under the previous medium-term plan, it reached its net sales, operating income, and other targets to achieve a V-shaped recovery in results, which slumped during the Covid-19 pandemic. It also strengthened environmental, DX, and other key initiatives, enabling it to accelerate change. While adhering fundamentally to the initiatives in the previous medium-term plan, the new medium-term plan builds on its content.

With "Create More Fun and More Fans!" as its slogan, the new medium-term plan sets out to deliver even higher added-value by focusing even more on customers. Its key themes are (1) attract and cultivate talent to create the future, (2) build a fan base as a good ethical company, (3) expand service fields and enhance value proposition, (4) establish supply chains to support sustainable growth, and (5) delve deeper into the global market. Compared with the previous medium-term plan, the external environment is generally better with growth in inbound demand and expansion of demand for offices. On the other hand, labor shortages, supply chain disruptions, and other risks remain high, and strengthening steps to address them has been incorporated as a theme in the new plan. Examples of specific initiatives planned are (1) bolstering hiring and establishing environments where employees can thrive aimed to attract and cultivate talent to create the future, (2) opening an Ethical Innovation Hub to build a fan base as a good ethical company, (3) reinforcing the transformation of business processes through BIM and other digital means to expand service fields and enhance value proposition, (4) setting up a Supply Chain Strategy Office to establish supply chains to support sustainable growth and (5) rebuilding business frameworks in each country to delve deeper into the global market.

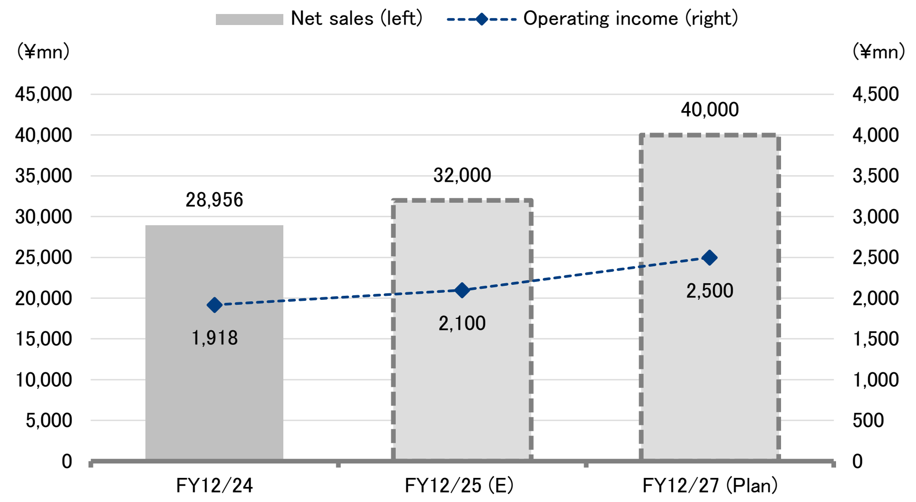
Medium-term management plan 2027: How initiatives interact



Source: The Company's results briefing materials

The new medium-term management plan's numerical targets for its final fiscal year three years from now, FY12/27, include net sales of ¥40.0bn, operating income of ¥2.5bn, and profit attributable to owners of parent of ¥1.7bn. That works out to average annual growth in net sales of 11.4%, operating income of 9.2%, and profit attributable to owners of parent of 4.3%. Based on the Company's past results, those targets appear well within reach. In addition, the Company looks to maintain healthy finances throughout the medium-term plan's three years, targeting a dividend payout ratio of 50% or higher and ROE of 10% or higher. In terms of items to be bolstered from a financial perspective, it looks to 1) expand corporate scale, raise profitability, and enhance enterprise value through aggressive growth investment (HR strategy, DX strategy, overseas strategy, M&A strategy), 2) improve capital efficiency by optimizing capital composition, and 3) implement shareholder returns in keeping with a basic policy that positions returning profits to shareholders as a key management priority. Regarding M&A, the Company is currently prepared to consider many proposals and plans to actively execute deals should the opportunity arise.

New medium-term management plan: Numerical targets



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

Overview of new medium-term management plan (FY12/25–FY12/27)

Slogan	"Create More Fun and More Fans!"	Use our imagination to make business fun And to gain more avid fans
Key themes	(1) Attract and cultivate talent to create the future	Redesign HR to support diverse career visions Strengthen hiring, establish environments where employees can thrive, etc.
	(2) Build a fan base as a good ethical company	Open Ethical Innovation Hub Create core fans by bolstering relationships with clients
	(3) Expand service fields and enhance value proposition	Further develop ethical design Transform business processes via digital technology, etc.
	(4) Establish supply chains to support sustainable growth	Establish Supply Chain Strategy Office Enhance delivery capabilities via integrated strategy with Group company Sobi
	(5) Delve deeper into the global market	Rebuild business frameworks in each country Strengthen collaboration with domestic operations and cultivate overseas talent
Financial targets	Net sales (FY12/27) Operating income (FY12/27) Net income (FY12/27) Dividend payout ratio (during medium-term plan) ROE (during medium-term plan)	¥40.0bn ¥2.5bn ¥1.7bn 50% or higher 10% or higher

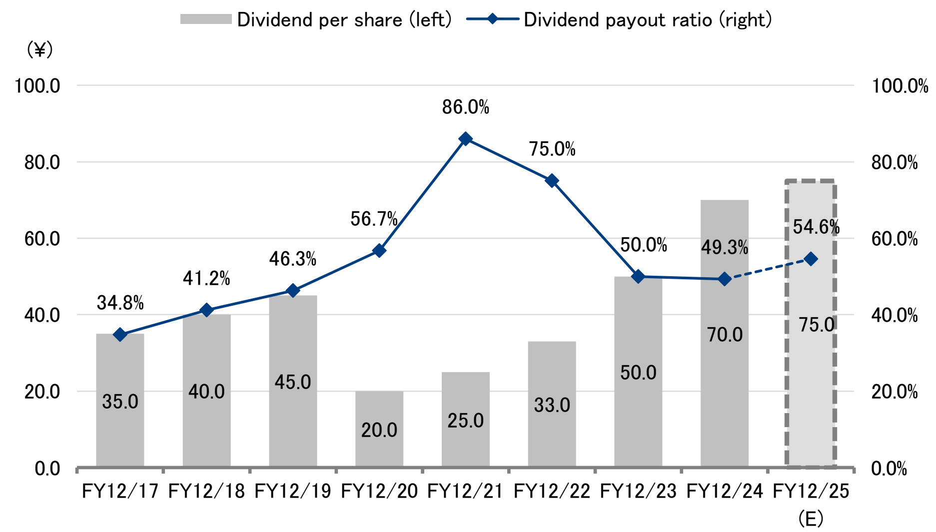
Source: Prepared by FISCO from the Company's results briefing materials

Shareholder return policy

Paid annual dividend of ¥70.0 in FY12/24. Forecasts annual dividend of ¥75.0 in FY12/25

The Company positions returning profits to shareholders as a key management priority. Its basic policy is to pay dividends in accordance with results each fiscal year, maintaining a balance with internal reserves needed for future business expansion and its financial standing. It targets a dividend payout ratio of at least 50%. Over the past 10 years, it has continued to provide dividends. Although the dividend level declined during the Covid-19 pandemic (FY12/20–FY12/22), the annual dividend topped the pre-pandemic level in FY12/23 at ¥50.0 and the dividend payout ratio recovered to 50.0%. In FY12/24, strong results prompted the Company to sharply raise the annual dividend to ¥70.0 (¥20.0 YoY increase, including special dividend of ¥10.0) and the dividend payout ratio came to 49.3%. For FY12/25, it forecasts an annual dividend of ¥75.0 (¥5.0 YoY increase) and dividend payout ratio of 54.6%. The high dividend payout ratio and steady pace of dividend growth are attractive.

Dividend per share and dividend payout ratio



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

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