COMPANY RESEARCH AND ANALYSIS REPORT

WADAKOHSAN CORPORATION

8931

Tokyo Stock Exchange Standard Market

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Summary

Comprehensive real estate company with 125-year history, maintaining top position in condominium sales in Kobe

WADAKOHSAN CORPORATION <8931> (hereinafter, "the Company"), founded in 1899, is a comprehensive real estate company with a long, 125-year history. It mainly operates in the Kobe, Akashi and Hanshin areas, which are well-known residential areas in Japan. In Kobe, where it has its headquarters, it has been the top supplier of condominiums for 26 years in a row through 2023. The Company has four main businesses – the mainstay Condominium Sales, Detached House Sales, Other Real Estate Sales, and Real Estate Rental Income. It aims to expand further by progressing its medium-term management plan (FY2/24–FY2/26). In April 2022, the Company changed its stock listing from the Second Section to the Standard Market of the Tokyo Stock Exchange (TSE).

1. FY2/24 results

In FY2/24 financial results, net sales were ¥38,825mn, a decrease of 9.1% year on year (YoY), operating profit was ¥4,528mn, an increase of 3.2%, ordinary profit was ¥3,820mn, an increase of 5.9% and net income was ¥2,638mn, an increase of 10.8%, as sales declined but profits rose. Compared to the initial forecast, profits increased significantly as operating profit increased by 25.8%, ordinary profit by 36.4% and net income by 38.9%. This is mainly due to brisk sales of condominiums and advertising expense reduction. Although sales and profit of the core Condominium Sales segment declined YoY, it maintained profit margins due to the large number of profitable projects to underpin overall earnings. Sales and profit increased sharply for Detached House Sales and Other Real Estate Sales segments due to an uptick in the number of delivered houses and other properties. Profit was up sharply on slightly higher sales in the Real Estate Rental Income segment in reaction to large-scale repairs made ahead of schedule in FY2/23. The equity ratio of 30.3%, ROA of 4.1%, and ROE of 8.9% are close to the real estate sector average in the TSE Prime, Standard, and Growth markets despite an increase in borrowings as the Company expands in scale, reflecting sufficient safety and profitability. The Company paid an annual dividend of ¥60.0 per share (¥26.0 interim and ¥34.0 period-end, including a ¥2.0 commemorative dividend), up ¥10.0 per share YoY.

2. Outlook for FY2/25 results

For the FY2/25 results, the Company forecasts net sales of ¥39,000mn, an increase of 0.4% YoY, operating profit of ¥4,700mn, an increase of 3.8%, ordinary profit of ¥3,800mn, a decrease of 0.5% and net income of ¥2,700mn, an increase of 2.3%. The Company looks for flat YoY net sales, but expects operating profit growth by maintaining high profit margins. In the mainstay Condominium Sales business, contracted units account for over 80% of units scheduled for completion in FY2/25. Although this means a decline in the number of units delivered, the Company forecasts flat YoY sales due to an increase in the average price per unit. The Company forecasts sales growth in the Detached House Sales and Other Real Estate Sales businesses due to an expected increase in the number of houses delivered in the former and brisk sales of profit-generating properties for sale in the latter. It expects a small decline in sales of the Real Estate Rental Income business, but projects stable profit by maintaining high occupancy rates. Based on these forecasts, the Company plans to increase its annual dividend by ¥5.0 per share YoY to ¥65.0 per share (¥26.0 interim, ¥39.0 period-end), which can be considered a reflection of its ongoing consideration of shareholder returns.

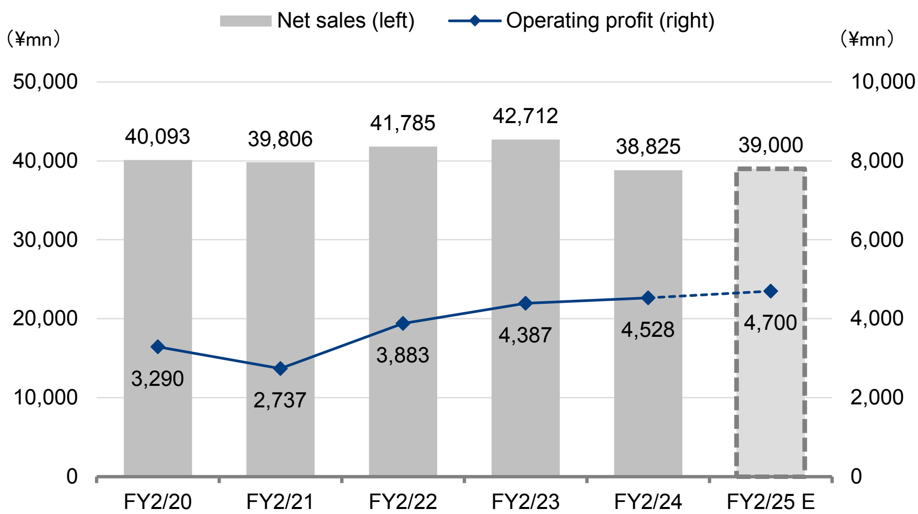
3. Medium-term management plan

The Company's medium-term management plan (FY2/24–FY2/26) calls for the following numerical targets. As three-year totals, the Company targets net sales of ¥122.4bn (down 1% versus the previous three years' total), operating profit of ¥11.8bn (up 7%), ordinary profit of ¥9.4bn (up 8%), and net income of ¥6.4bn (up 6%). For KPIs, the Company targets ROE of over 8% and D/E ratio of 2x or less. Looking ahead, the Company's theme is to create a roadmap to becoming "a comprehensive real estate company rooted in the community." Its goal is to achieve profit exceeding the previous three years' total and optimize business segments by a transformation of its earnings structure with a long-term view. Key strategies include moving into new geographical areas, businesses, and industries, personnel strategy, utilizing alliances effectively, and promotion of ESG and SDGs. Progress made in FY2/24 toward medium-term management plan targets was solid at 31.7% for net sales and 38.1% for operating profit. The Company is committed to achieving plan targets by continuing to progress in FY2/25 onward.

Key Points

- Profit growth on lower net sales in FY2/24, but all profit lines far exceeded the initial Company forecast, mainly due to brisk sales of condominiums and advertising expense reduction. Increased dividend after securing sufficient levels of safety and profitability
- Plan to maintain high profit margin for operating profit growth on flat net sales in FY2/25. Another dividend increase is planned, continuing to consider shareholder returns
- Medium-term management plan calls for flat net sales (three-year total), prioritizing profit expansion. Solid start in FY2/24, the first year of the three-year plan

Results trends



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

Company Profile

Comprehensive real estate company with long history and extremely strong name recognition in local area

1. Company overview

Founded in 1899, WADAKOHSAN CORPORATION is a comprehensive real estate company with a long, 125-year history. Its main businesses are sales of real estate (development and sales of condominiums, detached houses and residential lands), rental and leasing of real estate, and other businesses (rental, leasing and management of condominiums, stores and parking lots). It mainly operates in the Kobe, Akashi and Hanshin areas, which are well-known residential areas in Japan. In Kobe, where it has its headquarters, it has been the top supplier of condominiums 26 years in a row through 2023. It was ranked sixth as a combination of company and brand name recognition, seventh as a “unique brand name,” and third as a “familiar brand name” in the 26th Condominium Brand Questionnaire Kansai Edition (2023) run by Nikkei Inc.’s Osaka Head Office. This indicates that the Company holds its own in competition with major rivals in its home territory.

Its corporate philosophy is symbiosis (“living together”). In the spirit of valuing the connections between people, supporting one another, and living in a way that contributes to the happiness of others, the Company aims to create unique places to live in that fit each customer’s own way of life, while responding to the feelings of each person who resides there. The Company has declared the principle of Nanatomo Sustainability, which takes seven (*nana*) perspectives (with [*tomo*] daily life, with abundance, with neighborhoods, with the environment, with children, with the whole community, and with the future) to help build a sustainable society.

The Company also sets Premium Unique (uniqueness with value) as a product concept. This expresses the Company’s ideal of building one-of-a-kind homes for residents, paying close attention to detail in construction and residents’ feelings. It promotes Premium Unique as a brand originating in Kobe, for Kobe, which allows residents to feel a lifelong attachment to their home and pride in its value as a residence.

The Company has three strengths arising from operating a business rooted in the local area. First, it excels in site acquisitions. It picks up site information before its competitors thanks to many years’ relationships with local real estate brokers. Second, it has the planning capability to make the most of the land. The Company is able to turn plans with unique features that are best suited to each plot into reality, because it is rooted in the local area and has always worked with the local community. Third, it has networking capabilities. It has built up relationships of trust and cooperation with people within and outside the Company, which are essential to forming plans that make the most of the land and turning them into buildings. The Company has grown the scope of its business every year by harnessing these strengths.

At the end of FY2/24, the Company had 122 employees, of which 108 were full-employees. Since May 2022, Takenao Wada, a member of the founding family, has served as its Chairperson and Toshiya Mizomoto as President and Representative Director. The Company is solidly implementing its medium-term management plan under their leadership.

2. History

The Company was established as a real estate rental business in Kobe in January 1899. It established WADAKOHSAN Ltd. in December 1966 and reorganized as WADAKOHSAN Corporation in September 1979.

The Company engaged in the real estate rental business from the beginning. In March 1968, it began housing land development, building houses for sale, and sales of wooden detached houses. The Company began sales of entire condominium buildings in April 1982 and launched a full-scale rental condominium business in December 1985. In March 1991, it launched a full-scale business of its own condominium brand WAKHORE, and in June 1996, it engaged in Outstanding Building Development Projects as part of reconstruction after the Great Hanshin Earthquake.

In May 2007, the Company began sales of wooden detached houses in earnest, and in August 2012, it began supplying condominiums in Osaka Prefecture. The Company has expanded its business beyond Kobe into Akashi and the Hanshin area over the years. It formed capital and business alliances with The Japan Living Service Co., Ltd., a real estate brokerage in the Hanshin area (in August 2013) and with Seikou Ukou Co., Ltd., which manages built-for-sale and rental condominiums mainly in the Hanshin area (February 2016). It began selling condominiums in the Tokyo area in March 2005, but decided to go back to its origins after the Global Financial Crisis and closed its Tokyo sales office in February 2016. Today, its business is rooted in the Kinki region.

As its business grew, the Company listed its stock on JASDAQ in September 2004, made a listing change to the TSE Second Section in April 2020, and to the TSE Standard Market in April 2022.

Company history

Date	Major events
January 1899	Founded real estate rental business in Hyogo-ku, Kobe
December 1966	Established Wadakosan Ltd. in Nagata-ku, Kobe
March 1968	Obtained real estate brokerage license, began housing land development, building houses for sale, and sales of wooden detached houses
September 1979	Changed name to WADAKOSAN CORPORATION
April 1982	Began sales of entire condominium buildings
December 1985	Launched rental condominium business
March 1991	Launched full-scale condominium business under its own WAKOHRE brand
January 1995	Great Hanshin Earthquake
June 1996	Engaged in Outstanding Building Development Projects (Outstanding Redevelopment Category) for post-quake reconstruction in Kobe
August 1996	Registered as private-sector management corporation under Kobe City's System to Supply Specified Good Rental Housing
May 2000	Transferred head office from Nagata-ku, Kobe, to Chuo-ku, Kobe
May 2000	Began rental of the WAKOHRE-Vita series of fashionable condominiums mainly targeting women
February 2002	Began rentals of Ideal Cube series of urban rental condominiums
December 2002	Began development of rental condominiums by remodeling existing buildings to add value
September 2004	Listed shares on JASDAQ Market
March 2005	Launched sales of condominiums in the Tokyo metropolitan area
June 2005	Opened Tokyo Sales Office
March 2006	Planned investment of around ¥10.0bn in three years to strengthen rental business
May 2007	Began full-scale sales of wooden detached houses
June 2007	Exceeded 10,000 units in cumulative number of condominiums supplied (construction starts basis)
November 2011	Opened Osaka Sales Office
August 2012	Launched sales of condominiums in Osaka Prefecture
August 2013	Capital and business alliance with The Japan Living Service Co., Ltd.
February 2016	Capital and business alliance with Seikou Ukou Co., Ltd.
February 2016	Closed Tokyo Sales Office
April 2020	Changed market listing to Tokyo Stock Exchange Second Section
December 2021	Exceeded 20,000 units in cumulative number of condominiums supplied (construction starts basis)
April 2022	Transferred to the Tokyo Stock Exchange Standard Market

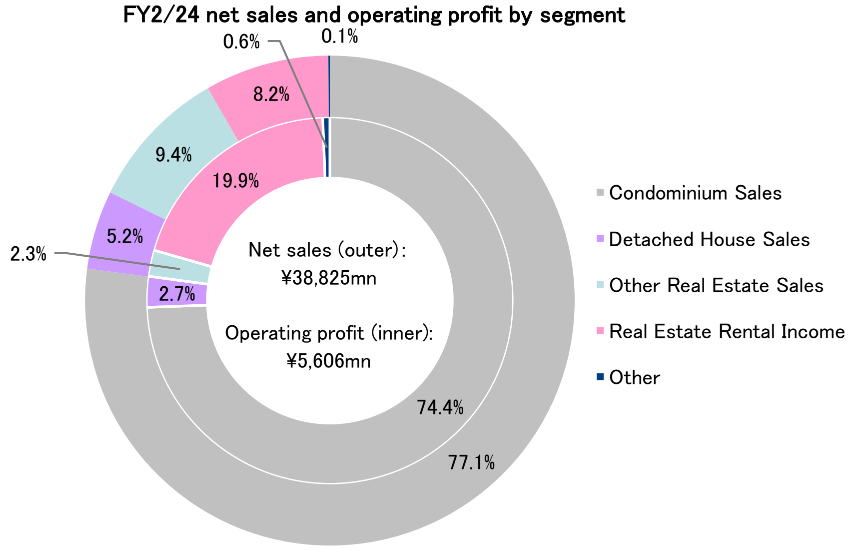
Source: Prepared by FISCO from the Company's website, Securities Report and financial results briefings

Business overview

Core business is Condominium Sales

The Company has four reportable segments. They are Condominium Sales, Detached House Sales, Other Real Estate Sales, and Real Estate Rental Income. In FY2/24, Condominium Sales accounted for 77.1% of net sales and 74.4% of operating profit prior to deducting Companywide costs. Detached House Sales accounted for 5.2% of net sales and 2.7% of operating profit, Other Real Estate Sales for 9.4% of net sales and 2.3% of operating profit, Real Estate Rental Income for 8.2% of net sales and 19.9% of operating profit, and Other for 0.1% of net sales and 0.6% of operating profit. Real Estate Rental Income has the highest profit margin, because rental of existing profit-generating properties does not incur large costs.

FY2/24 net sales and operating profit by segment



Note: Operating profit composition is calculated prior to deducting Companywide costs (SG&A expenses)
Source: Prepared by FISCO from the Company's financial results

Details of each of the Company's business segments are as follows.

1. Condominium Sales

The Condominium Sales business is the Company's core business, accounting for roughly 80% of net sales. Since 1991, the Company has developed mostly small and medium-size condominium buildings under the WAKOHRE brand name (originating from Wada Kohsan Residence) mainly in Kobe, the Hanshin area, and surrounding areas, which are well-known residential areas in Japan. The brand name WAKOHRE is used in other businesses as well.

As expressed in the product concept Premium Unique, the Company aims to supply safe and secure condominiums that blend in with their surroundings as part of the local landscape. It also harnesses its planning capability to create homes, prioritizing functionality and comfort by introducing the latest housing fixtures. Quality is important in its condominium development. The Company aims to builds condominiums with a focus on safety and their value as an asset, considering resale value at the time of development.

Most of the condominiums that the Company has developed so far have been of medium scale with around 50 units, but it has recently started to develop larger condominiums with 100-plus units. It has increased the number of properties near urban train stations and expanded its business area to Osaka, Himeji, and nearby areas. The Company is also strengthening its price competitiveness and raising profit margins by establishing permanent condominium galleries throughout its sales area. WADAKOHSAN does not have its own sales division; all sales are made through other companies. It therefore adopts a strategy of communicating the strength of its products (such as planning and design) to customers with the keyword “building condominiums that sell.”

Since starting business in March 1991, the cumulative number of WAKOHRE units and buildings supplied since starting the condominium business was 21,362 units in 552 buildings at the end of February 2024 (construction start basis), ranking third in the Kinki region and first in Kobe for the 26th year in a row (1998–2023) in 2023 for the number of buildings supplied. It takes on average 2–2.5 years from land procurement to completion and delivery of a condominium building with 50–100 units. The Company minimizes price fluctuation risk by commencing sales within a month or two of starting construction and aggressively concluding sales contracts. Its condominiums tend to attract early sales contracts, because they offer diverse floor plans that fulfill the needs of a broad range of buyers.

Examples of projects in FY2/24 include WAKOHRE Fukushima Noda The Residence in Fukushima-ku, Osaka (56 units), and WAKOHRE Mukonoso North Grand (84 units) and WAKOHRE City Tachibana (132 units) in Amagasaki, Hyogo Prefecture.

Condominium Sales

Source: Reprinted from the Company’s results briefing materials

2. Detached House Sales

In the Detached House Sales business, the Company prepares and develops small to medium-size housing land lots and builds detached houses on them. Having launched new brand WAKOHRE-Noie in 2009, the Company makes use of its networks for buying up sites that it fostered in its Condominium Sales business to supply houses with added value such as design and planning flair to develop houses mainly in the Kobe and Hanshin areas, with some in the Hokusetsu area. The business differentiates itself from competitors by making streetscape creation a basic principle even for developments as small as 10 houses, targeting a solid increase in the number of houses supplied. It takes on average 6 months to a year from land procurement to completion and delivery of detached houses. Recent projects include WAKOHRE-Noie Nishinomiya Hinokuchicho (Nishinomiya, Hyogo Prefecture; 17 houses) and WAKOHRE-Noie Suzurandai Minamimachi (Kita-ku, Kobe; 20 houses).

3. Other Real Estate Sales

The Company mainly plans, develops, and sells smaller investment properties for sale as profit-generating properties. Brand names are WAKOHRE-Vita (reinforced concrete [RC] and steel-framed investment condominiums) and WAKHORE-Viano (wooden investment apartments). As part of the process of utilizing its real estate holdings, the Company may also sell land lots for building condominiums and detached houses if it expects that selling the land will increase its value. It takes on average one year from land procurement to completion and delivery of steel-framed investment condominiums and wooden investment apartments. On average, the Company will usually hold a property for 2–3 years after completion, earning rental income during that period before selling it. Recent projects include WAKOHRE-Vita Suma Kaihinkoen (Total: 40 units; Suma-ku, Kobe) and WAKOHRE Viano Suma Tenjincho (Total: 15 units; Suma-ku, Kobe)

4. Real Estate Rental Income

The Company's founding business with stable earnings, it mainly manages residences as well as stores and offices, and parking lots. It owns rental condominiums with good transport access (within 1 km radius of a train station) in Kobe and the Hanshin area to earn rental income. The Company prioritizes fixtures and functionality, offering distinctive properties such as condominiums that allow pets and those with unique architectural design features. It develops new rental condominiums, but may switch to developing condominiums for sale instead depending on the project. The Company also develops rental condominiums by adding value to an existing rental property with renovation work to maximize the value of the asset. This method costs less and has a shorter construction period than a new build.

The Real Estate Rental Income business has maintained a high occupancy rate of over 95% (excluding parking lots). At the end of FY2/24, its assets broke down into residences (74.6%), stores and offices (18.6%), parking lots (0.5%), and self-storage and other (6.3%). Examples of properties the Company owns include WAKOHRE-Vita Sumiyoshi Higashimachi (Higashinada-ku, Kobe; 12 units in total) and WAKOHRE Kobe Sannomiya Building (Chuo-ku, Kobe; retail stores on floors B1 to 2, offices on floors 3 to 9).

5. Other

Other includes revenue not included in reportable segments such as contract cancellation fees, insurance agency fees, and brokerage fees.

Results trends

Strong results far exceeding initial Company forecast

1. FY2/24 results

In FY2/24, normalization of economic activity in Japan centered on the consumption of services gained momentum amid a recovery in consumer spending and demand from inbound visitors due to improvement of the employment and income environments and the COVID-19 pandemic winding down. However, the economic outlook in Japan and overseas remains unclear because of fears of a slowdown in consumer spending caused by inflation stemming from uncertainties in international affairs and volatile financial markets. In the real estate industry, housing demand has been solid due to the continuation of the government's housing assistance measures and housing loan interest rates being stable at a low level. Nonetheless, concerns remain regarding the impact of construction costs staying at a high level on sales prices and interest rate trends depending on the Bank of Japan's monetary policy.

Under these circumstances, the Company engaged in sales activities with the goal of acquiring new land and sales contracts. As a result, in FY2/24 non-consolidated financial results, net sales were ¥38,825mn, a decrease of 9.1% year on year (YoY), operating profit was ¥4,528mn, an increase of 3.2%, ordinary profit was ¥3,820mn, an increase of 5.9% and net income was ¥2,638mn, an increase of 10.8%, resulting in a settlement where sales declined but profits rose. Compared with the revised forecast announced with Q3 FY2/24 results, net sales and operating profit were close, while ordinary profit and net income were slightly higher. Net sales were the same as the initial Company forecast announced with FY2/23 results, while profit lines were all significantly higher (25.8% for operating profit, 36.4% for ordinary profit, and 38.9% for net income) mainly due to brisk sales of condominiums and advertising expense reduction. As a result, profit margins improved across the board. The operating margin went up 1.4pt YoY to 11.7%, the ordinary margin was also up 1.4pt YoY to 9.8%, and the net margin rose 1.2pt to 6.8%.

FY2/24 results

(¥mn)

	FY2/23		FY2/24			YoY		vs. forecast	
	Results	% of sales	Forecast	Results	% of sales	Change	% change	Change	% change
Net sales	42,712	100.0%	39,000	38,825	100.0%	-3,886	-9.1%	-174	-0.4%
Gross profit	8,387	19.6%	-	8,489	21.9%	101	1.2%	-	-
SG&A expenses	3,999	9.4%	-	3,960	10.2%	-39	-1.0%	-	-
Operating profit	4,387	10.3%	3,600	4,528	11.7%	141	3.2%	928	25.8%
Ordinary profit	3,607	8.4%	2,800	3,820	9.8%	212	5.9%	1,020	36.4%
Net income	2,382	5.6%	1,900	2,638	6.8%	256	10.8%	738	38.9%

Note: Targets are from initial forecast at the FY2/23 results announcement
Source: Prepared by FISCO from the Company's financial results

Lower net sales and profit of Condominium Sales business, but margins increased due to profitable projects

2. Trends by business segment

(1) Condominium Sales

In the core Condominium Sales business, the market has been relatively strong due to the low level of housing loan interest rates and the trend of buyers seeking convenience in their homes despite the increased cost of development foundations such as land prices and construction costs. The Company pushed ahead with sales activities to attract contracts and delivery plans mainly for properties new to the market.

As a result, the number of units that went on sale in FY2/24 came to 473 in 11 buildings (down 29.6% YoY), mostly in Kobe, Akashi, and the Hanshin area. The number of contracted units totaled 584 (down 9.3% YoY) for a total value of ¥29,045mn (down 3.9% YoY), bringing the number of contracted units not yet delivered at the end of FY2/24 to 690 (down 12.9% YoY) with a total value of ¥33,579mn (down 2.6% YoY). The number of units delivered totaled 686 (up 0.7% YoY) as a result of the completion of 14 buildings including WAKOHRE City Tachibana. Accordingly, net sales came to ¥29,927mn (down 20.0% YoY) and operating profit prior to deducting Companywide costs was ¥4,170mn (down 7.4%) with a profit margin of 13.9% (up 1.9pt). We note that the profit margin fluctuates each year depending on properties sold that year. In FY2/24, the profit margin went up because of the large number of profitable projects whose units sold at a higher price than initially expected. The Company has also been able to pass onto sales prices the recent increase in construction costs.

(2) Detached House Sales

In the Detached House Sales business, the Company focused on sales activities to acquire contracts mainly in sales of properties new to the market. The Company delivered 48 houses in FY2/24, recording net sales of ¥2,017mn (up 82.9% YoY) and operating profit of ¥152mn (¥2mn profit in FY2/23), and a profit margin increase from 0.2% to 7.6%. Net sales and profit were up sharply, due in part to curtailing sales of detached houses in FY2/23 amid brisk condominium sales.

(3) Other Real Estate Sales

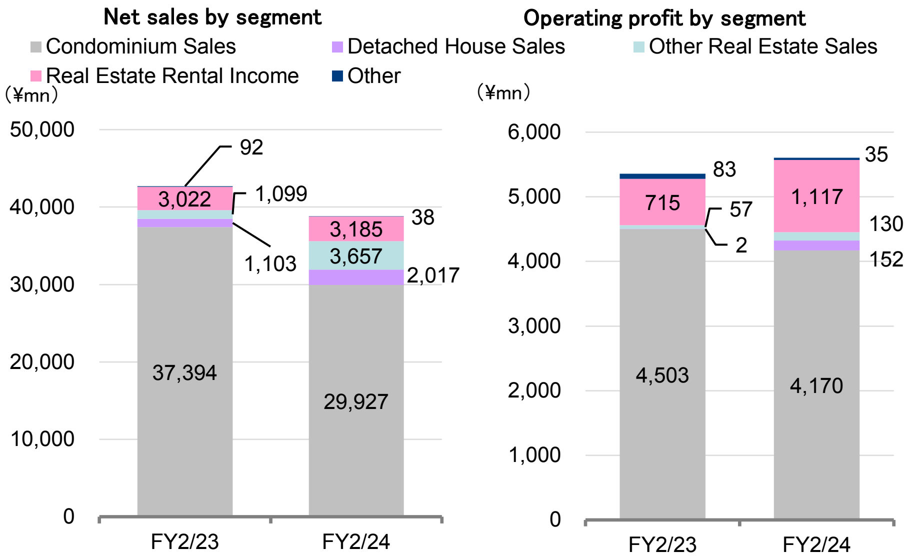
In the Other Real Estate business, the Company sold 20 properties including rental condominiums and housing lots. In FY2/24, net sales were ¥3,657mn (up 232.6% YoY) and operating profit was ¥130mn (up 128.0%) with a profit margin of 3.6% (down 1.6pt).

(4) Real Estate Rental Income

In the Real Estate Rental Income business, the Company has maintained relatively stable rent levels for its mainstay residential properties, focusing on improving occupancy rates and percentage of rent arrears as well as working to build an optimal rental real estate portfolio by acquiring new properties that help to stabilize rental income. As a result, in FY2/24, net sales came to ¥3,185mn (up 5.4% YoY) and operating profit was ¥1,117mn (up 56.1%) with a profit margin of 35.1% (up 11.4pt). Profit grew sharply in the real estate rental income business in reaction to large-scale repairs carried out ahead of schedule in FY2/23, when overall profit exceeded the Company's forecast.

(5) Other

In the Other business, FY2/24 net sales totaled ¥38mn (down 58.2% YoY), consisting of revenue from non-refundable deposits, insurance agency fees, and brokerage fees, and operating profit was ¥35mn (down 57.6% YoY) with a profit margin of 91.5% (up 1.2pt).



Note: Operating profit by segment is calculated prior to deducting Companywide costs (SG&A expenses)
Source: Prepared by FISCO from the Company's financial results

Total assets increase, but net assets also up, maintaining sufficient level of safety

3. Financial condition and management indicators

Looking at the Company's financial condition at the end of FY2/24, total assets increased ¥15,084mn from the end of the previous fiscal period to ¥101,228mn. Current assets increased ¥14,636mn to ¥72,380mn. The main change factors were that inventories (real estate for sale and real estate for sale in process) increased ¥9,668mn due to acquiring land for business purpose and progress with construction for FY2/25 onward, and cash and deposits increased ¥5,589mn. Real estate for sale in process increased alongside progress with procuring land for building condominiums, but also includes land lots and projects under construction, which are expected to contribute to earnings in FY2/25–FY2/27. Cash and deposits increased due to receipt of cash proceeds from sales. Non-current assets increased ¥448mn from the end of the previous fiscal period to ¥28,847mn. The main change factor was a ¥321mn increase in property, plant and equipment due to investment in building new rental properties.

Total liabilities were up ¥13,005mn from the end of the previous fiscal period to ¥70,569mn. Current liabilities increased ¥5,661mn to ¥34,723mn, mainly due to increases of ¥2,797mn in advances received, ¥1,621mn in trade payables, and ¥762mn in short-term borrowings, etc. (including the current portion of long-term borrowings and bonds payable). The increase in advances received was due to receipt of cash proceeds from sales, while the rise in trade payables was due to payment of construction fees for properties completed at the end of the fiscal period. Non-current liabilities increased ¥7,343mn to ¥35,846mn, mainly due to an increase in long-term borrowings (including bonds payable) of ¥7,305mn on progress of buying up sites for projects. Total net assets increased ¥2,079mn to ¥30,658mn. The Company recorded net profit of ¥2,638mn, offset against dividends paid on appropriation of retained earnings of ¥599mn.

From the foregoing, interest-bearing debt (long- and short-term borrowings, etc.) increased ¥8,067mn from the end of the previous fiscal period to ¥52,589mn. The equity ratio (a stability indicator) fell 2.9pt to 30.3% and the debt-equity ratio (D/E ratio) was 1.7x (up 0.1pt). The equity ratio is in line with the average in FY3/23 for the real estate sector in the TSE Prime, Standard, and Growth markets of 32.9%, showing that the Company is maintaining a sufficient level of stability. Profitability indicators are also close to the average values in FY2/23 of the real estate sector of the three TSE markets. Return on assets (ROA) was 4.1% (up 0.2pt YoY, same as sector average) and return on equity (ROE) was 8.9% (up 0.3pt, versus sector average of 8.6%), which shows that the Company is also sufficiently profitable.

Consolidated balance sheet and management indicators

(¥mn)

	FY2/23	FY2/24	Change
Current assets	57,744	72,380	14,636
Cash and deposits	11,756	17,345	5,589
Real estate for sale	9,779	9,610	-168
Real estate for sale in process	34,446	44,283	9,836
Non-current assets	28,399	28,847	448
Property, plant and equipment	26,378	26,699	321
Total assets	86,144	101,228	15,084
Current liabilities	29,062	34,723	5,661
Trade payables	7,026	8,647	1,621
Short-term borrowings, etc.	17,018	17,780	762
Advances received	3,490	6,287	2,797
Non-current liabilities	28,502	35,846	7,343
Long-term borrowings	27,503	34,809	7,305
Total liabilities	57,564	70,569	13,005
(Interest-bearing debt)	44,521	52,589	8,067
Net assets	28,579	30,658	2,079
[Stability]			
Equity ratio	33.2%	30.3%	-2.9pt
D/E ratio	1.6	1.7	0.1
[Profitability]			
ROA	3.9%	4.1%	0.2pt
ROE	8.6%	8.9%	0.3pt

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

4. Cash flow situation

Cash and cash equivalents ("cash") at the end of FY2/24 increased ¥5,830mn from the end of the previous fiscal period to ¥14,970mn.

Cash used in operating activities totaled ¥1,176mn (¥2,153 provided in FY2/23). The main change factors were inflows from recording profit before income taxes of ¥3,822mn and increases of ¥2,797mn in advances received and ¥1,621mn in trade payables such as payment of construction fees offset against outflows such as ¥9,907mn increase in inventories such as acquisition of land for business purposes for FY2/25 onward.

Cash used in investing activities totaled ¥458mn (¥1,066mn used in FY2/23). The main change factor was outflow of ¥742mn from capital investment including the acquisition of rental properties.

Cash provided by financing activities totaled ¥7,466mn (¥6,636mn used in FY2/23). The main change factors were outflows of ¥11,946mn from repayment of long-term borrowings on completion of deliveries of condominiums and other properties offset against inflows of ¥21,517mn from an increase in long-term borrowings for the purchase of land for condominiums.

Cash flow statement

(¥mn)

	FY2/23	FY2/24
Cash flow from operating activities	2,153	-1,176
Cash flow from investment activities	-1,066	-458
Cash flow from finance activities	-6,636	7,466
Cash and cash equivalents at end of period	9,139	14,970

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

Outlook

Operating profit growth on flat net sales forecast for FY2/25 by maintaining high profit margin

1. Outlook for FY2/25 results

Looking at the business environment in FY2/25, the macroeconomic environment is shifting from many years of deflation to inflation triggered by higher prices due to yen depreciation and an improved income situation. Corporate earnings have been brisk in this environment, also helped by recovery in consumption of services and demand from inbound visitors through suppression of the pandemic. However, concerns remain such as the Bank of Japan ending negative interest rates and interest trends in the future. Against this backdrop, nationwide real estate and house prices based on the official land price survey published in March 2024 increased at the fastest rate since the bubble economy period for all land-use types, with the three major areas recording the fastest rates of increase. While housing demand remains solid, because housing loan interest rates are low and stable and the government has continued its housing assistance measures, on the other hand construction costs remain at a high level due to rising raw material prices and labor costs.

Looking at the condominium market in the Kinki area, where the Company is based, total supply of condominiums was 15,385 units (down 13.8% YoY) in 2023, while estimated sales of condominiums in 2024 are 16,500 units with an average price per unit of ¥4,666mn (up 0.7%) and price per square meter of ¥790,000 (up 2.1%). With prices trending up but supply contracting, orders have been brisk, with the average contract rate at 71.4% (down 1.3pt from 2023), exceeding the 70% mark, over which the market is considered strong. In the Kobe and Hanshin areas where the Company is based, total supply of condominiums in 2023 was 971 units in Kobe (down 35.5% YoY) and 1,695 units in Hyogo Prefecture (down 15.0%) with an average price per unit of ¥4,958mn (up 27.5%) in Kobe and ¥5,243mn (up 7.3%) in Hyogo Prefecture, and price per square meter of ¥858,000 (up 15.3%) in Kobe and ¥723,000 (up 6.6%) in Hyogo Prefecture. This shows that the number of units supplied has fallen sharply in Kobe because of a rapid price increase.

Taking this business environment into account, for the FY2/25 consolidated results, the Company forecasts net sales of ¥39,000mn, an increase of 0.4% YoY, operating profit of ¥4,700mn, an increase of 3.8%, ordinary profit of ¥3,800mn, a decrease of 0.5% and net income of ¥2,700mn, an increase of 2.3%. The Company looks for operating profit growth on flat net sales, because it plans projects in FY2/25 with high profit margins. It is confident of achieving its forecast in the core Condominium Sales business, because over 80% of units scheduled for completion in FY2/25 are already contracted.

FY2/25 results outlook

(¥mn)

	FY2/24		FY2/25		YoY	
	Results	% of sales	Forecast	% of sales	Change	% change
Net sales	38,825	100.0%	39,000	100.0%	174	0.4%
Operating profit	4,528	11.7%	4,700	12.1%	171	3.8%
Ordinary profit	3,820	9.8%	3,800	9.7%	-20	-0.5%
Net income	2,638	6.8%	2,700	6.9%	61	2.3%

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

Over 80% of mainstay condominium units scheduled for completion in FY2/25 are already contracted

2. Outlook by business segment

The outlook by business segment is as follows.

(1) Condominium Sales

The Company forecasts a 0.8% YoY decline in net sales to ¥29,700mn, with planned delivery of 630 units in FY2/25 (down 56 units from FY2/24) with an increase of ¥3mn in the average price per unit to ¥47mn. Net sales are expected to be flat YoY, with the increase in the average sales price compensating for the decline in the number of units delivered. It began sales of WAKOHRE Kitahanada Residence in August 2023 in Sakai, Osaka Prefecture, which is a new area for the Company. Conveniently located a 10-minute walk from Kitahanada Station on the Osaka Metro Midosuji Line, the total number of contracted units is 54 and growing fast, with delivery scheduled for March 2025.

The Company plans to complete 643 units in 14 buildings in FY2/25. At the end of FY2/24, the number of contracted units totaled 539 or 83.8% of the total. The number of projects procured but not yet on sale break down by area into 915 units in 20 buildings in Kobe, 262 units in 9 buildings in the Hanshin area, 391 units in 7 buildings from Akashi to Himeji, and 209 units in 6 buildings in Osaka Prefecture. The Condominium Sales business is thus likely to continue driving the Company's earnings.

(2) Detached House Sales

The Company plans a 9.1% YoY increase in net sales to ¥2,200mn in FY2/25, with 54 houses scheduled for delivery (6 more than in FY2/24). WAKOHRE-Noie Suma Myohoji Class Terrace occupies eight lots in Suma-ku, Kobe, conveniently located 7 minutes' walk from Myohoji Station on the Kobe City Subway line. All houses have the Sky Balcony feature, taking advantage of the open spaces of the location. The houses are also equipped with the MAMORY seismic control device for wooden houses.

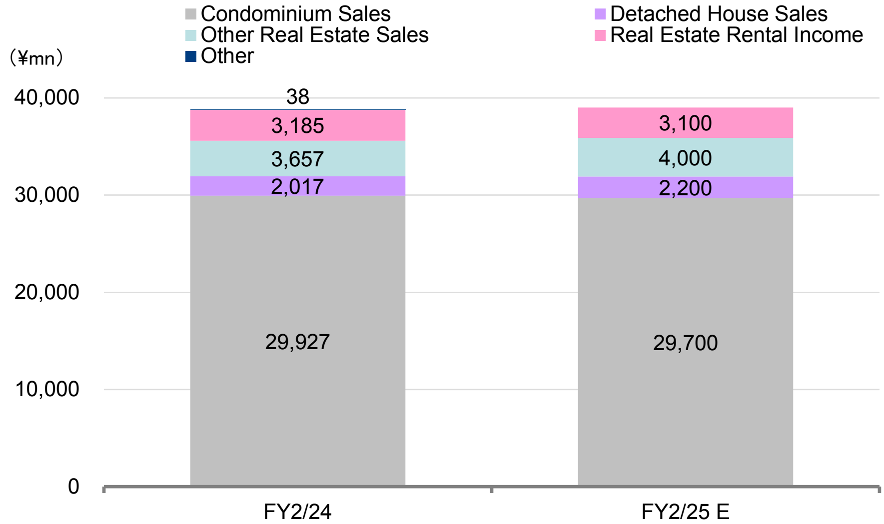
(3) Other Real Estate Sales

The Company looks for a 9.4% YoY increase in net sales to ¥4,000mn. Profit-generating properties for sale are selling well, and the Company is also focused on procurement and development of these properties. Properties under development (all profit-generating properties) are as follows: 87 units in 8 projects for wooden properties, 823 units in 58 projects for steel-framed properties, and 94 units in 2 projects for RC properties for a total of 1,004 units in 68 projects. Profit-generating properties scheduled for sale in FY2/25 are 3 units in one wooden property project and 234 units in 14 steel-framed property projects for a total of 237 units in 15 projects. Of these, WAKOHRE-Vita Hasuikecho in Nagata-ku, Kobe, which has 9 units, is conveniently located 4 minutes' walk from Nishidai Station on the Sanyo Electric Railway line. All units face south to maximize sunlight and are equipped with useful home parcel delivery boxes.

(4) Real Estate Rental Income

The Company plans a 2.7% YoY decline in net sales to ¥3,100mn in FY2/25. It expects stable earnings by keeping occupancy rates high. Rental income in FY2/24 broke down into residences (73.4%), stores and offices (21.6%), parking lots (3.1%), and self-storage and other (1.9%). Occupancy rates at the end of FY2/24 were 97.8% for residences, 97.4% for stores and offices, and 89.8% for parking lots. Of these properties, WAKOHRE-Vita Morikitamachi in Higashinada-ku, Kobe has a total of 27 units with a convenient location 9 minutes' walk from Konan-Yamate Station on the JR Line.

Net sales by income (planned)



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

Medium- to long-term growth strategy

Theme of creating a roadmap to becoming “a comprehensive real estate company rooted in the community,” progress of the medium-term management plan

1. Overview of the medium-term management plan

The Company has traditionally formulated three-year medium-term management plans, setting out its basic policy for business operation, business targets, and earnings plans, but did not disclose them, because the industry is largely dependent on the external environment and the Company sometimes had to revise its plan to adapt to change. On April 7, 2023, however, it announced its medium-term management plan (FY2/24– FY2/26), because it believes in the importance of constructive dialogue with shareholders and investors through proactive disclosure of information to increase corporate value in the longer term.

The Company is aware of mounting major issues amid the acceleration of changes in its operating environment, including economic trends in Japan. It has positioned the three years of FY2/24– FY2/26 as a crucial time for the future of its business assuming it can maintain stable earnings over this period. It newly clarified its code of conduct Wada-Way as the basic principles for building a new corporate culture, which is considers essential for further growth as a company and its quest to become sustainable. The 4 principles of Wada-Way are “initiative and self-regulation” (approach matters with a proactive mindset and take action with a sense of responsibility), “one and only” (harness individuality to create [buildings] with value that add vibrance to the area), “fast and bold decisions” (nimble business decision-making), and “mutual trust” (teamwork and communication through constructive discussions).

Next, the Company defined its basic policy. Its theme for the future (Vision) is to create a roadmap to becoming “a comprehensive real estate company rooted in the community,” and its goals are to surpass total profit recorded in FY2/21–FY2/23 and optimize its business segments by transforming its earnings structure. It also unveiled key strategies such as promoting the formation of a new business pillar by proactive efforts to move into new areas, businesses, and industries, effectively utilizing personnel strategies and alliances to change an inward-looking culture to a more outward-looking one, and to enhance and grow its solutions function focused on solving social problems from the perspectives of ESG and SDGs.

Based on these principles and strategies, the medium-term management plan (FY2/24–FY2/26) targets total net sales for the three- year period of ¥122.4bn (down 1% from the total in FY2/21–FY2/23), operating profit of ¥11.8bn (up 7%), ordinary profit of ¥9.4bn (up 8%), and net income of ¥6.4bn (up 6%), prioritizing profit expansion over net sales growth. KPI targets are ROE of over 8% and D/E ratio of 2x or less. Progress toward medium-term management plan targets in FY2/24 (the first year of the medium-term plan) was solid at 31.7% for net sales, 38.1% for operating profit, 40.4% for ordinary profit, and 40.6% for net income. The Company’s forecast for total progress in FY2/24 (result) and FY2/25 (forecast) is 63.6% for net sales, 78.2% for operating profit, 81.1% for ordinary profit, ad 83.4% for net income.

The number of households is trending up in Kobe and the Hanshin and Hokusetsu areas where the Company operates, but Kobe is seeing a population decline. Although the core Condominium Sales business is expected to remain solid, one of the main goals of the medium-term management plan is to foster new businesses for the future. We at FISCO will be following progress of the medium-term plan closely.

Medium-term management plan numerical targets and progress

(¥bn)

	Total FY2/21-FY2/23 Results	Total FY2/24-FY2/26 Plan	YoY	FY2/24 Results	Progress rate	FY2/25 Plan	Total FY2/24-FY2/25 Progress rate
Net sales	1,243	1,224	-1.0%	388	31.7%	390	63.6%
Operating profit	110	118	7.0%	45	38.1%	47	78.2%
Ordinary profit	87	94	8.0%	38	40.4%	38	81.1%
Net income	60	64	6.0%	26	40.6%	27	83.4%
ROE	7.6%	8% or more	-	8.9%	-	-	-
D-E ratio	1.6x	2x or less	-	1.7x	-	-	-

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

2. Development by business segment

(1) Condominium Sales

In the Condominium Sales business, the Company plans to create growth opportunities while harnessing its strengths, which are a detailed knowledge of local areas and having an outstanding presence and brand power as well as sales capabilities utilizing its permanent condominium galleries. Operating environment assumptions are a stabilizing supply and demand balance, upward trend in the number of households (but a smaller number of people per household), and higher construction costs. For growth opportunities and business strategies, the Company will explore expansion into new geographical areas, forming joint ventures, and redevelopment. Its target for the number of delivered units (total in three years) is around 2,000 units. It had roughly 2,600 units land banked at the end of February 2023.

In FY2/24, the Company began supplying condominiums in Sakai, Osaka Prefecture, as well as buying up sites for the first time in Kakogawa, Hyogo Prefecture.

(2) Detached House Sales

The Detached House Sales business complements the Condominium Sales business by harnessing the WAKOHRE brand. Business strategies include setting priority areas (Kobe and further west), responding to the increase in construction costs, and custom-designed house initiatives. Its target for the number of delivered units (total in three years) is 50% more than in FY2/21–FY2/23, reaching 50 units per year in the first stage.

In FY2/24, the cumulative number of WAKOHRE-Noie units supplied since 2009 reached 700. The Company launched a renovation service that aims to provide assurance to house buyers in the form of after-sales support.

(3) Real Estate Rental Income

The Company's founding business with strengths providing a stable income (mainly from residential properties), risk diversification with a portfolio of mainly small and medium-size properties, and high occupancy rates, which are constantly over 95%. Growth opportunities and business strategies include rebuilding older buildings or using them in another business, initiatives for buildings on leased land, and expanding into new property types. It targets around 2,200 units owned at the end of FY2/26.

(4) Other Real Estate Sales, etc.

A growth business for the Company in recent years, Other Real Estate Sales, etc., have achieved stable income and capital gains. Harnessing its strengths in developing land not suitable for condominiums by making the most of its networks fostered for buying up sites and property rentals, the Company is implementing a business strategy of selecting the most suitable plot for a project and optimizing the number of years it owns the property (i.e., determine when to sell) to address the rise in construction costs. It targets (three-year totals) more than 600 units sold, around 800 units owned, and annual rental income of ¥600mn.

(5) Other business policies

The Company added a Customer Service (CS) division when it reorganized in April 2023. It obtains information on customer needs from existing customers, which it utilizes to create business opportunities. It also plans to strengthen relationships with alliance partners with a view to building new business models through collaboration.

In FY2/24, the Company made progress with new business initiatives such as joint projects on a site previously occupied by a branch of a financial institution, investment in a storage battery business, and development of elderly care facilities.

3. Sustainability

The Company focuses on the duties of the Board of Directors and human capital investment as measures to strengthen governance. Specific policies for the former are stimulating discussion at Board of Directors meetings by evaluating effectiveness, review of directors' compensation (end retirement allowance and introduce earnings-linked pay), strengthen the function of the Board of Directors based on a skills matrix, and ensure diversity of its members in terms of business area, specialty, gender, and independence. With regard to human capital investment, the Company aims to appoint and increase the number of women managers to improve diversity of its work force as well as establish a new appraisal system and expand training programs that further employees' development. For sustainability, the Company plans to formulate a basic policy for sustainability, comply with environmental performance requirements, take on restoration of traditional houses, and install SmaGO waste bins.

As a human capital investment measure in FY2/24, the Company raised base pay two years in a row and seconded employees to real estate companies in Kobe and the Tokyo area as a way to transition to a more outward-looking corporate culture, seeking to improve employee engagement and ensure it can recruit the people it needs. For sustainability, the Company formulated a new basic policy on sustainability and identified nine materialities to focus on for implementation based on the basic policy. In this way, the Company plans to pursue sustainability management more aggressively by taking steps toward sustained corporate value.

4. Profit allocation policy

To ensure the continuity and profitability of the Company, it clarified a profit allocation policy, which incorporates expanding shareholder return measures and ESG/SDGs perspectives, whose main component is re-investing in new and existing businesses. The weighting of re-investment is 50–70%. The Company will re-invest in existing businesses by monitoring their profitability, efficiency, and market trends, taking into account their growth potential and other factors. The dividend payout ratio ranges from 20–30%, targeting 30% amid calls for fair shareholder returns. The weighting of sustainability-related investment is 10–20%, which will be allocated to environment-related and human capital investment, including investment in new business areas.

The Company has continued to increase its dividend payout since FY2/22 to raise its dividend payout ratio.

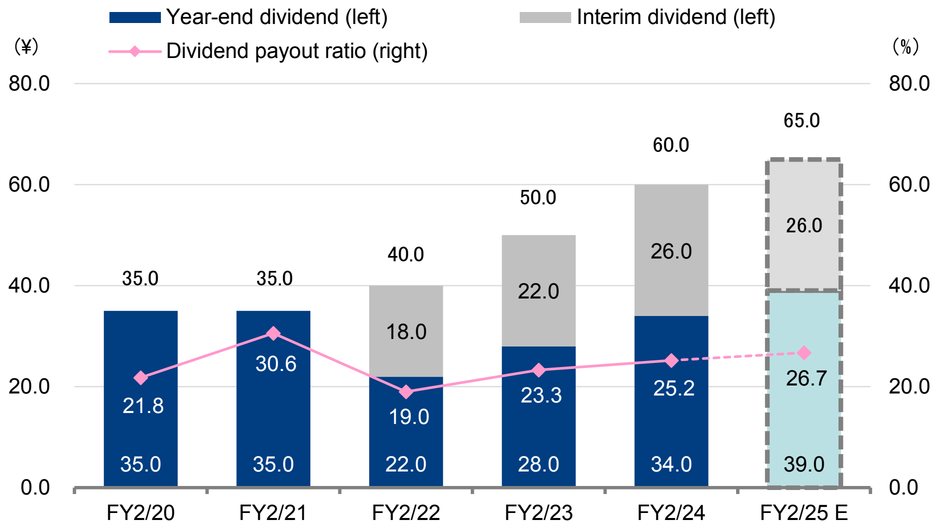
Shareholder returns

Dividend increase planned with target dividend payout ratio of 30%

The Company pays dividends as a way to return profit to shareholders. Its basic dividend policy positions maintaining and expanding shareholder profit for the long term as a management priority, putting shareholder returns first, seeking to pay continuous, stable dividends while taking into consideration earnings improvement and strengthened governance by expansion into new business areas and efficient management.

In FY2/24, the Company paid an annual dividend of ¥60.0 per share (¥26.0 interim, ¥34.0 period-end including a ¥2.0 commemorative dividend) at a dividend payout ratio of 25.2%, an increase of ¥10.0 per share from FY2/23. The Company plans to increase the dividend by ¥5.0 per share in FY2/25 to ¥65.0 per share (¥26.0 interim, ¥39.0 period-end), raising the dividend payout ratio to 26.7%. The average dividend payout ratio of the real estate sector in the TSE Prime, Standard, and Growth markets was 29.2% in FY3/23. We think the Company is making steady progress toward achieving its medium-term management plan target of a 30% dividend payout ratio.

Dividend and dividend payout ratio



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

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