COMPANY RESEARCH AND ANALYSIS REPORT

Ainavo Holdings

7539

TSE JASDAQ

28-Jan.-2022

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Summary

Mid-sized home equipment and exterior wall installation company; target in the medium-term management plan is operating profit of ¥2.15bn in FY9/22

Ainavo Holdings <7539> (hereafter, also "the Company") is a pure holding company with five consolidated subsidiaries and three non-consolidated subsidiaries. Its main businesses are exterior wall installations of tile, siding, and other exterior materials, installations of kitchens, various water-related equipment and other home equipment, sales of building materials, and sales of home equipment. The company is unique in its handling of both installation and wholesale of building materials and home equipment. While the Company primarily supplies these services to smaller general contractors and building firms, it also receives installation orders from major general contractors. Strict fund collection management and project progress management have enabled the Company to accumulate abundant net cash (cash/deposits – loans) totaling ¥12,404mn (as of the end of FY9/21) and cultivate a robust balance sheet.

1. FY9/21 results: net sales increased 1.2% YoY and operating profit increased 5.9%

In consolidated results for FY9/21, the Company reported ¥66,121mn in net sales (+1.2% YoY), ¥1,903mn in operating profit (+5.9%), ¥2,121mn in recurring profit (+3.2%), and ¥1,309mn in profit attributable to owners of parent (-2.9%). By segment, sales and profits increased in both the standalone homes business and large properties business, but the growth rate was somewhat low. Looking at sub-segments, sales of building materials and tiles were particularly sluggish, which dragged down overall results. The gross profit ratio was 14.4% (14.2% in the previous fiscal year), an improvement of 0.2 percentage points (ppt) compared to the previous fiscal year, while a YoY increase in SG&A expenses was kept to just 2.1%, resulting in an increase in operating profit. The decrease in profit attributable to owners of parent was due to an increase in tax rates compared to the previous fiscal year.

2. FY9/22 results outlook: aiming for net sales to increase 16.3% and operating profit to rise 13.0%

For FY9/22, the Company is forecasting net sales of ¥76,900mn (+16.3% YoY), operating profit of ¥2,150mn (+13.0%), recurring profit of ¥2,360mn (+11.3%) and profit attributable to owners of parent of ¥1,580mn (+20.6%). The future of the housing market remains uncertain, but it is now recovering following its worst period due to the impact of the coronavirus, so the forecast is for an increase in profits. YoY growth in sales and profits is expected to be in the double digits, but this is largely due to contributions from a new consolidated subsidiary acquired through an M&A. The increase in profits from the existing consolidated subsidiaries alone is anticipated to be around 4-5%, although this is a conservative estimate.

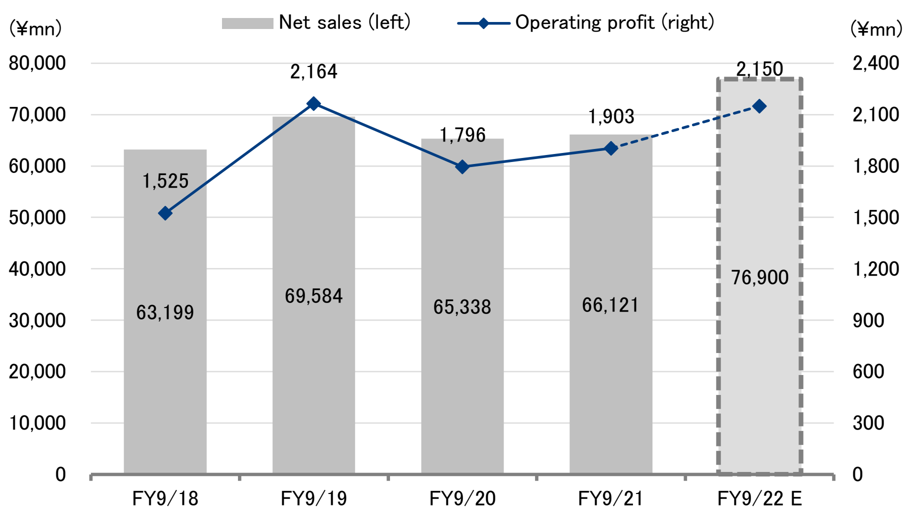
3. Announced the new medium-term management plan: targeting net sales of ¥80bn and an operating profit ratio of 2.8% in FY9/22

In the current medium-term management plan, of which FY9/22 is the final year, the Company is targeting net sales of ¥80bn (including M&A) and an operating profit ratio of 2.8% (¥2.25bn). Judging from the current situation, it appears difficult to meet the target for net sales, but the target for operating profit is still achievable. At present, there has been no change in the target values. A new medium-term management plan is currently being formulated and is scheduled to be announced around fall 2022. For returns to shareholders, it targets a dividend payout ratio of 30%, and in FY9/22, it plans to pay an annual dividend of ¥36 (dividend payout ratio of 26.4%), although an increase remains possible depending on results.

Key Points

- Main businesses are exterior wall and home equipment installations and sales of building materials; possesses a sturdy financial base thanks to reinforced management
- While the outlook for the ongoing FY9/22 remains unclear, forecasting operating profit will increase 13.0% YoY
- Medium-term management plan targets (net sales of ¥80bn and an operating profit ratio of 2.8% in FY9/22) remain unchanged

Results trends



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

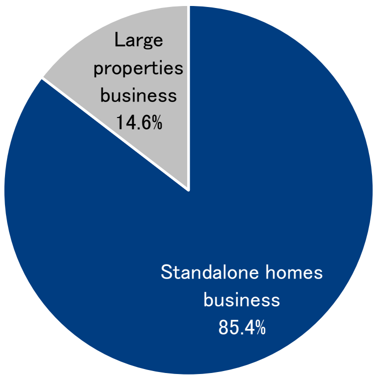
Business overview

Mainly installs tile, siding, and other exterior wall materials and home equipment. Possesses a sturdy financial base thanks to reinforced management

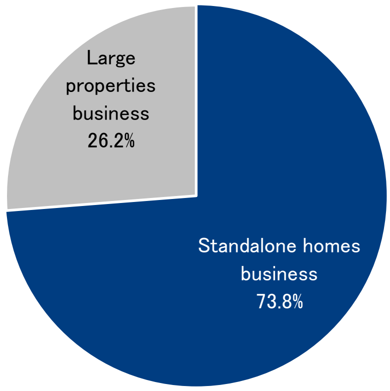
1. Description of business

Ainavo Holdings, a pure holding company, has five consolidated subsidiaries and three non-consolidated subsidiaries in its group as of the end of FY9/21. The company's business segments are standalone homes and large properties, and segment results in FY9/21 were ¥56,480mn for standalone homes (85.4% of overall sales) and ¥9,641mn for large properties (14.6%) in net sales, and ¥2,325mn and ¥827mn, respectively, in operating profit. However, the Company simply splits these segments by the relative size of customers (in terms of orders value) and actual content of business activities is almost the same. The former primarily covers installations for ordinary homes with orders obtained from smaller general contractors and ordinary building firms, while the latter mainly reflects orders from large general contractors and other major customers.

Net sales by business segment
(FY9/21: ¥66,121mn)



Operating profit (prior to intercompany eliminations) by business segmen
(FY9/21: ¥3,153mn)



Note: Segment operating profit prior to companywide adjustments
Source: Prepared by FISCO from the Company's financial results

The standalone homes business breaks down further into the sub-segments of exterior wall installations, home equipment installations, building materials sales, and home equipment sales, and the large properties business consists of tile sales and installations and home equipment sales and installations. Sub-segment shares of overall sales (FY9/21) are 21.7% for exterior wall installations, 25.9% for home equipment installations, 19.9% for building materials sales, and 17.9% for home equipment sales under the standalone homes business and 5.2% for tile sales and installations and 9.4% for home equipment sales and installations under the large properties business.

2. Overview of segments and sub-segments

(1) Standalone homes business

These orders primarily come from local smaller general contractors and building firms and home manufacturers and other builders*. The Company does not receive many orders directly from the party conducting the project.

* Sales of tile materials and home equipment related to installation projects are booked under the respective installation segments.

a) Exterior wall installations

This business handles installations of interior and exterior tiles, floor tiles, and exteriors for ordinary homes, small condominiums, and stores. It supports not only tile, but also siding and other materials.

b) Home equipment installations

This business mainly covers renovation installations (including kitchens as well as bath, toilet, and other water-related systems) and solar power generation system installations. While orders are fundamentally separate from exterior wall installations, they are received jointly in some cases. The Company is one of the industry's largest firms for bathroom installations with roughly 20,000 projects per year.

c) Building materials sales

This sub-segment handles wholesale transactions for various building materials used in ordinary homes, stores, and smaller condominiums. Tile building material sales volume is relatively large. Its primary sources of sales are building firms and local homebuilders, and Ainavo does not sell to secondary wholesale firms.

d) Home equipment sales

Similarly to building materials sales, the Company sells home equipment to building firms and local homebuilders.

(2) Large properties business

Business content is almost the same as the standalone homes business, but the Company books installations at large properties (buildings, condominiums, and others) for major general contractors in this segment. It receives a relatively large number of orders from Obayashi <1802>, Konoike, and Haseko Corporation <1808>.

a) Tile sales and installations

Interior and exterior tiles, floor tiles, stone material sales and installations.

b) Home equipment sales and installations

Kitchen and other home equipment and air-conditioning equipment sales and installations mainly for buildings and condominium buildings.

3. Main procurement and sales destinations

The Company has roughly 7,000 customers, including major general contractors. Collection of accounts receivables is a key point in business operations, because these customers are not always active and value per project varies significantly from a few million yen to over ¥100mn.

LIXIL Corporation <5938> is the primary procurement source for building materials and home equipment, and the Company also purchases extensively from TOTO LTD. <5332>, Rinnai Corporation <5947>, Cleanup Corporation <7955>, and DAIKEN CORPORATION <7905>.

While the Company has about 2,000 subcontractors (large and small) handling projects, roughly half of the sub-contractors work exclusively with the Company and the two sides sustain longstanding trust relationships thanks to support from the insurance framework described below.

4. Competition, features, and strengths

Many companies are involved in exterior wall installations or selling building materials and home equipment, and the Company faces numerous rivals in its various areas of business. While it is not easy to find a clear rival in terms of an overall business, the most likely competitors are KOIZUMI Co., Ltd. and Watanabe Pipe Co., Ltd. However, rivals are decreasing for exterior wall installations due to the downward trend in the number of contractors in recent years. The Company promotes differentiation with rivals in the current environment leveraging the following features.

One of the Company's unique features is the comprehensive skills training center where it provides training in highly specialized skills for its numerous subcontractors. The Company's training enables it to support a variety of project types. The skills center also unfailingly conducts half-yearly checks at each site to ensure projects are progressing as planned, which reduces variations in finished work due to individual differences.

Another feature is that it has its own insurance program. The Company collects part of subcontractors' turnover and pools the funds in a cooperative association for use to cover income for one week if a subcontractor (worker) is unable to work due to an accident. This program strengthens the trust relationship between the Company and subcontractors and also boosts the retention rate for skilled workers and precision of finished work.

While it is normal for companies to implement management of sales, costs, and project progress, the Company also thoroughly conducts management of billing, money received, and uncollected bills. Specifically, it manages procurement and sales for each project on a line-by-line basis, even with small amounts, and manages (checks) to not only the income statement, but also the balance sheet. The ability to execute this type of balance sheet management while monitoring project progress is important and not simple. There have been numerous cases in recent years of other firms in the business of selling building materials entering the installations business, though many rivals later exit the installations business due to the difficulty (inefficiency) of uncollected bill management. In one sense, this aspect serves as a "hidden barrier to entry," and it can be said that the Company's ability to manage it is an important strength. As a result, the Company accumulates abundant net cash (cash/deposits – loans) totaling ¥12,404mn (as of the end of FY9/21) and cultivates a robust balance sheet.

Results trends

In FY9/21, operating profit increased by 5.9%, reflecting a subdued recovery. The gross profit ratio was 14.4%, an improvement of 0.2ppt YoY

1. FY9/21 results

(1) Status of profit and loss

In the FY9/21 consolidated financial results, the Company reported ¥66,121mn in net sales (+1.2% YoY), ¥1,903mn in operating profit (+5.9%), ¥2,121mn in recurring profit (+3.2%), and ¥1,309mn in profit attributable to owners of parent (-2.9%). By segment, sales and profits increased in both the standalone homes business and large properties business. Although it was a period of recovery from the impact of the coronavirus pandemic, the growth rate was somewhat low. As the Company generally tends to recover slower than companies in other industries, its recovery from the coronavirus pandemic also seems to be somewhat slow.

The gross profit ratio was 14.4% (14.2% YoY), an improvement of 0.2ppt, but this was mainly due to changes in the Company's product mix. As a result, gross profit increased 2.9% YoY, while a YoY increase in SG&A expenses was kept to just 2.1%, resulting in an increase in operating profit. Looking at sub-segments, sales of building materials and tiles were particularly sluggish, which dragged down the overall results. The decrease in profit attributable to owners of parent was due to an increase in tax rates compared to the previous fiscal year.

On analyzing the changes in operating profit, the increasing factors were increases of ¥244mn due to higher sales and ¥22mn due to an improvement in the gross profit ratio (0.2ppt YoY), and the decreasing factor was a decline of ¥159mn due to a rise in SG&A expenses. As a result of these factors, operating profit increased ¥106mn YoY.

Overview of FY9/21 results

(¥mn)

	FY9/20		FY9/21			
	Results	% of sales	Results	% of sales	Change in value	YoY change
Net sales	65,338	100.0%	66,121	100.0%	783	1.2%
Gross profit	9,280	14.2%	9,548	14.4%	268	2.9%
SG&A expenses	7,484	11.5%	7,644	11.6%	160	2.1%
Operating profit	1,796	2.7%	1,903	2.9%	107	5.9%
Recurring profit	2,056	3.1%	2,121	3.2%	65	3.2%
Profit attributable to owners of parent	1,348	2.1%	1,309	2.0%	-39	-2.9%

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

(2) Status by business segment

Below, we review trends by segment and sub-segment.

a) Standalone homes business

The standalone homes business posted ¥56,480mn in net sales (+1.4% YoY) and ¥2,325mn in segment profit (+1.7%). Sub-segment sales were exterior wall installations at ¥14,373mn (+1.6% YoY), home equipment installations at ¥17,107mn (+3.2%), building materials sales at ¥13,142mn (-3.7%), and home equipment sales at ¥11,858mn (+4.9%).

Compared to the previous fiscal year, when the coronavirus pandemic was at its worst, FY9/21 saw a recovery trend, although the pace was somewhat slow. In terms of past economic recoveries, this business has tended to be somewhat slower than other types of business, which also seemed to be the case this time. The current backlog of orders shows that steady progress is being made in new customer development, and the outlook for FY9/22 is promising.

b) Large properties business

The large properties business recorded ¥9,641mn in net sales (-0.2% YoY) and ¥827mn in segment profit (+1.7%). Although sales declined, an improvement in profit margins due to the effects of cost revisions and strong performance by OnchoGiken Co., Ltd. led to an increase in profits. In sub-segments, net sales for tile sales and installations were ¥3,427mn (-13.5%) and home equipment sales and installations were ¥6,213mn (+9.1%). The decrease in net sales of tile sales and installations was due to sluggish performance in the business targeting stores and commercial facilities, as well as a slump in the business targeting condominium buildings caused by the coronavirus pandemic (changes in specifications led to a decrease in the ratio of tiles used). On the other hand, sales for home equipment sales and installations were relatively strong, primarily due to contributions from OnchoGiken.

Results by segment

(¥mn)

	FY9/20		FY9/21			
	Results	% of sales	Results	% of sales	Change in value	YoY change
Net sales	65,338	100.0%	66,121	100.0%	783	1.2%
Standalone homes business	55,681	85.2%	56,480	85.4%	799	1.4%
Exterior wall installations	14,143	21.6%	14,373	21.7%	230	1.6%
Home equipment installations	16,583	25.4%	17,107	25.9%	524	3.2%
Building materials sales	13,647	20.9%	13,142	19.9%	-505	-3.7%
Home equipment sales	11,307	17.3%	11,858	17.9%	550	4.9%
Large properties business	9,657	14.8%	9,641	14.6%	-16	-0.2%
Tile installations	3,962	6.1%	3,427	5.2%	-534	-13.5%
Home equipment installations	5,694	8.7%	6,213	9.4%	518	9.1%
Operating profit	1,796	2.7%	1,903	2.9%	107	5.9%
Standalone homes business	2,285	-	2,325	-	39	1.7%
Large properties business	817	-	827	-	10	1.7%
(Adjustments)	-1,306	-	-1,250	-	-	-

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

(3) Results by business company

Regarding results by business company, Avelco Co., Ltd. recorded net sales of ¥50,548mn (+1.1% YoY) and operating profit of ¥1,600mn (+10.1%), INTELGROW CORPORATION recorded net sales of ¥10,543mn (+4.0%) and operating profit of ¥181mn (+57.1%), and OnchoGiken recorded net sales of ¥2,096mn (+16.4%) and operating profit of ¥310mn (+13.0%). Imamura Co., Ltd. recorded net sales of ¥3,126mn (-13.9%) and operating profit of ¥35mn (-63.0%). As a relatively high proportion of Imamura's sales are related to tiles, it was impacted heavily by the slump in tile sales.

Results by business company

(¥mn)

	Avelco			INTELGROW			OnchoGiken			Imamura		
	FY9/20	FY9/21	YoY change	FY9/20	FY9/21	YoY change	FY9/20	FY9/21	YoY change	FY9/20	FY9/21	YoY change
Net sales	49,984	50,548	1.1%	10,134	10,543	4.0%	1,800	2,096	16.4%	3,630	3,126	-13.9%
Operating profit	1,453	1,600	10.1%	115	181	57.1%	274	310	13.0%	94	35	-63.0%
Operating profit ratio	2.9%	3.2%	-	1.1%	1.7%	-	15.3%	14.8%	-	2.6%	1.1%	-
Recurring profit	1,548	1,672	8.0%	202	264	30.6%	276	311	12.8%	158	69	-56.1%
Recurring profit ratio	3.1%	3.3%	-	2.0%	2.5%	-	15.3%	14.9%	-	4.4%	2.2%	-
Net profit	972	1,030	5.9%	152	164	7.9%	179	216	20.2%	147	67	-53.9%

Note: Figures shown are those prior to intercompany eliminations
Source: Prepared by FISCO from the Company's results briefing materials

(4) Progress with priority issues

Below, we review progress in areas that the Company has earmarked as "priority issues." Siding net sales were ¥2,919mn (-2.3% YoY) and projects for pre-cut siding was 794 (+3.7%). These figures were roughly the same level as the previous fiscal year. Due to the effects of the coronavirus pandemic, the Company has been unable to secure subcontractors for installations, which is the main factor behind the lackluster growth. However, profit margins have improved so the situation does not look so bad. Non-housing net sales were ¥1,623mn (no YoY comparison). Regarding sashes, which is a focus for the Company, net sales were ¥2,802mn (+24.8%) including sash branch stores and ¥1,636mn (+37.4%) when they were excluded, reflecting smooth growth. In the sash business, the Company is shifting assembly work and the preparation of drawings in-house, which has improved profit margins.

In the brand business, net sales of Artis Co.,Ltd. (unit bathrooms) by Artis were reasonable at ¥269mn (-1.1%), but net sales of Maristo (tiles), which are handled by Avelco Co., Ltd., were poor at ¥1,004mn (-28.7%). Although the monetary value of Maristo is small, it has a large profit margin, so this decrease has impacted the overall profit margin. For new customer development, which is one of the indicators that the Company prioritizes the most, growth is progressing as planned with 739 projects with new customers (+22.6%) resulting in net sales of ¥1,480mn (+52.1%).

Progress with priority issues I

(¥mn)

	Siding	Siding pre-cut (projects)	Non-housing	Sashes	
				Including sash branch stores	Not including sash branch stores
FY9/21	2,919	794	1,623	2,802	1,636
FY9/20	2,987	766	-	2,245	1,191
YoY change	97.7%	103.7%	-	124.8%	137.4%

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

Progress with priority issues II

(¥mn)

	Brand business		New customer development	
	Maristo (tiles)	Artis (unit bathrooms)	Number of projects	Value
FY9/21	1,004	269	739	1,480
FY9/20	1,409	272	603	973
YoY change	71.20%	98.9%	122.6%	152.2%

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

Stable financial base; surplus net cash of ¥12,404mn

2. Financial condition

Looking at financial conditions in FY9/21, current assets totaled ¥27,146mn (+¥1,969mn from the end of FY9/20). Key item were cash and deposits up ¥1,321mn, notes receivables and finished project unpaid funds up ¥446mn, and unfinished project spending up ¥204mn. Fixed assets totaled ¥9,775mn (+¥609mn), including tangible fixed assets at ¥5,586mn (-¥44mn), intangible fixed assets at ¥443mn (-¥133mn, including -¥45mn in goodwill), and investments and other assets at ¥3,745mn (+¥786mn). As a result, total assets increased ¥2,578mn to ¥36,921mn.

Current liabilities totaled ¥13,330mn (+¥1,375mn from the end of FY9/20). The main factors behind this change were increases of ¥498mn in notes payables and unpaid amounts and ¥181mn in unpaid factoring. Fixed liabilities increased ¥56mn to ¥1,391mn. As a result, total liabilities were ¥14,722mn (+¥1,431mn). Net assets amounted to ¥22,199mn (+¥1,147mn), mainly on a ¥882mn gain in retained earnings from booking profit attributable to owners of parent.

The Company possesses a sturdy financial base with extensive surplus net cash (cash and deposits – loans) at ¥12,404mn as of the end of FY9/21 with ¥12,780mn in cash and deposits versus ¥161mn in total loans payable (long-term and short-term loans payable).

Consolidated balance sheet

(¥mn)

	End of FY9/20	End of FY9/21	Change in value
Cash and deposits	11,459	12,780	1,321
Notes receivables and finished project unpaid funds	10,590	11,036	446
Unfinished project spending	1,963	2,167	204
Total current assets	25,177	27,146	1,969
Tangible fixed assets	5,630	5,586	-44
Intangible fixed assets	576	443	-133
Goodwill	226	181	-45
Investments and other assets	2,959	3,745	786
Total fixed assets	9,166	9,775	609
Total assets	34,343	36,921	2,578
Notes payables and unpaid amounts	6,151	6,649	498
Unpaid factoring	3,084	3,265	181
Total current liabilities	11,955	13,330	1,375
Long-term loans payable	176	161	-15
Total fixed liabilities	1,335	1,391	56
Total liabilities	13,291	14,722	1,431
Net assets	21,052	22,199	1,147

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

3. Cash flow situation

Looking at the cash flow of FY9/21, net cash provided by operating activities was ¥1,941mn. Main income sources were ¥2,142mn in profit before income taxes and a ¥680mn increase in accounts payables, while the main outflows were a ¥520mn increase in accounts receivables and a ¥225mn increase in inventories. Net cash used in investing activities was ¥364mn. Main outflows were ¥25mn in purchase of tangible fixed assets and ¥285mn in purchase of shares of subsidiaries. Net cash used in financing activities was ¥256mn. The main inflow was a ¥185mn increase in long-term and short-term loans payable, and the main outflow was dividend payments of ¥426mn. As a result, the net increase in cash and cash equivalents was ¥1,320mn and cash and cash equivalents at the end of period was ¥12,780mn.

Consolidated cash flow statement

(¥mn)

	FY9/20	FY9/21
Cash flow from operating activities	1,310	1,941
Profit before income taxes	2,080	2,142
Decrease (increase) in accounts receivables	2,828	-520
Decrease (increase) in inventories	-402	-225
Increase (decrease) in accounts payables	-1,991	680
Cash flows from investing activities	-127	-364
Purchase of tangible fixed assets (net)	-122	-25
Purchase of shares of subsidiaries	0	-285
Cash flows from financing activities	-653	-256
Increase in long-term and short-term loans payable (net)	-215	185
Dividend payments	-426	-426
Net increase (decrease) in cash and cash equivalents	529	1,320
Cash and cash equivalents at the end of period	11,459	12,780

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

Business outlook

As the outlook is unclear, these forecasts are conservative and may represent lower limits

For FY9/22, the Company is forecasting net sales of ¥76,900mn (+16.3% YoY), operating profit of ¥2,150mn (+13.0%), recurring profit of ¥2,360mn (+11.3%) and profit attributable to owners of parent of ¥1,580mn (+20.6%). From FY9/22, the newly acquired subsidiary MANIX Co., Ltd. has been added to the scope of consolidation and is forecast to record net sales of ¥8,000mn and operating profit of ¥120mn. However, the forecast based on existing Group companies alone, which excludes those amounts, predicts that growth in net sales and operating profit will be limited. The outlook for the current housing market remains unclear and there are concerns that the coronavirus pandemic will get worse following the emergence of the Omicron variant, so the situation is being watched cautiously.

Overview of FY9/22 forecasts

(¥mn)

	FY9/21		FY9/22 E		
	Results	% of sales	Value	% of sales	YoY change
Net sales	66,121	100.0%	76,900	100.0%	16.3%
Operating profit	1,903	2.9%	2,150	2.8%	13.0%
Recurring profit	2,121	3.2%	2,360	3.1%	11.3%
Profit attributable to owners of parent	1,309	2.0%	1,580	2.1%	20.6%

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

Regarding operating profit by subsidiary, the forecast is ¥1,760mn (+¥160mn YoY) for mainstay Avelco, ¥190mn (+¥9mn) for INTELGROW, ¥240mn (-¥70mn) for OnchoGiken, and ¥50mn (+¥15mn) for Imamura. This means operating profit is expected to increase for all subsidiaries except OnchoGiken, whose operating profit is expected to decrease slightly in FY9/22 due to recording a high level of profit in FY9/21 following a relatively strong performance, a decrease in public tenders, and increasing competition in the private sector.

Full-year results forecasts by subsidiary

(¥mn)

	Avelco		INTELGROW		OnchoGiken		Imamura		MANIX*
	FY9/21 Results	FY9/22 Forecasts	FY9/21 Results	FY9/22 Forecasts	FY9/21 Results	FY9/22 Forecasts	FY9/21 Results	FY9/22 Forecasts	FY9/22 Forecasts
Net sales	50,548	52,590	10,543	11,000	2,096	2,200	3,126	3,200	8,000
Operating profit	1,600	1,760	181	190	310	240	35	50	120
Operating profit ratio	3.2	3.3	1.7%	1.7%	14.8%	10.9%	1.1%	1.6%	1.5%
Recurring profit	1,672	1,820	264	270	311	240	69	80	120
Recurring profit ratio	3.3	3.5	2.5%	2.5%	14.9%	10.9%	2.2%	2.5%	1.5%
Net profit	1,030	1,300	164	160	216	140	67	70	90

* New consolidated subsidiary
Note: Figures shown are those prior to intercompany eliminations
Source: Prepared by FISCO from the Company's results briefing materials

The target values for the “priority issues” are ¥4,200mn for siding (+¥1,281mn YoY), 1,000 buildings for siding pre-cut (+206), ¥2,500mn for non-housing (stores, commercial facilities, etc.; +¥877mn), ¥4,500mn for sashes including branch stores (+1,698mn), ¥3,000mn for sashes excluding branch stores (+¥1,364mn), ¥1,480mn for Maristo (+¥476mn), ¥280mn for Artis (+¥11mn), and for new customer development, ¥2,500mn for the monetary value (+¥1,020mn) and 850 for the number of projects (+111 projects). Non-housing includes stores and commercial facilities, and as a field the Company will focus on in the future, it has been included in the priority issues since the previous fiscal year. Although the target value is high, progress is being made on new customer development with aims to achieve it. Sashes are also a field to focus on alongside non-housing, so a high target has been set. For Maristo, the Company is aiming to increase sales significantly, but due to a downturn in the previous fiscal year, the target value has been lowered to the level set two periods ago. The target value for Artis is the sales target for Artis, the subsidiary that operates the Artis business.

The Company is also continuing to focus on new customer development. In the previous fiscal year, there were 739 projects with new customers and the Company is aiming for 850 in FY9/22. The target value for projects with new customers includes the new consolidated subsidiary MANIX.

Target values for priority issues I

(¥mn)

	Siding	Siding pre-cut (projects)	Non-housing	Sashes	
				Including sash branch stores	Not including sash branch stores
FY9/21	2,919	794	1,623	2,802	1,636
FY9/22 (targets)	4,200	1,000	2,500	4,500	3,000

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

Target values for priority issues II

(¥mn)

	Brand business		New customer development	
	Maristo (tiles)	Artis (unit bathrooms)	Net sales	Number of projects
FY9/21	1,004	269	1,480	739
FY9/22 (targets)	1,480	280	2,500	850

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

Medium- to long-term growth strategy

The target values for the final year of the 3rd medium-term management plan (FY9/22) remain unchanged

The target values for the 2nd medium-term management plan (FY9/17-FY9/19), which came before the current plan, included net sales of ¥70bn and operating profit of ¥1.9bn, these were largely achieved. Continuing on from this, the Company announced the 3rd medium-term management plan, which has FY9/22 as its final fiscal year. The target values for FY9/22, the final year of the plan, have been revised due to the effects of the coronavirus pandemic and are now net sales of ¥80bn and an operating profit ratio of 2.8% (operating profit of ¥2,200mn). Judging from the current situation, it appears difficult to meet the target for net sales, but the target for operating profit is still achievable. At present, there has been no change in the target values.

Measures in the 3rd medium-term management plan that FISCO is focusing on are as follows.

(1) Further strengthen priority products (exterior materials: sashes, siding, etc.)
(2) Conduct M&A in accordance with the business strategies and area strategies of each Group company
(3) Actively conduct necessary investment, as well as returning profits to employees while maintaining operating profit levels

The Company's direction is to simply get on with implementing these measures.

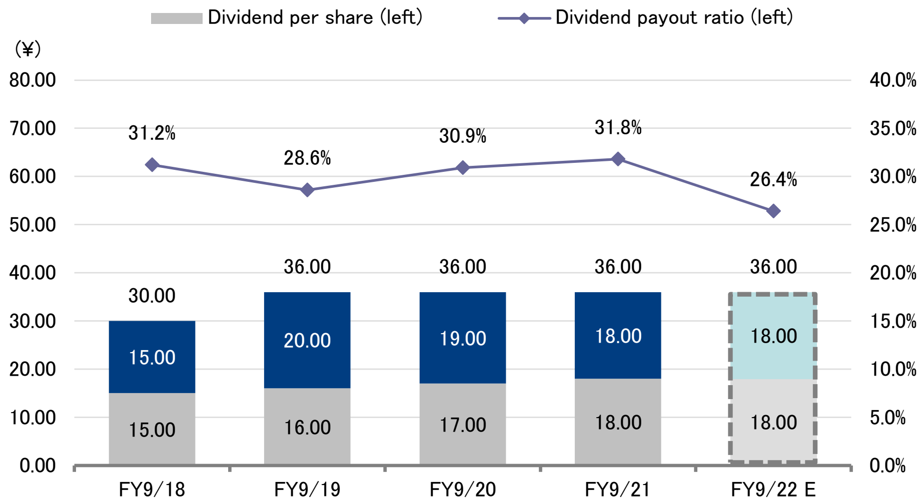
Additionally, the Company is currently formulating a new medium-term management plan that is due to be announced in fall 2022. Close attention will be paid to the targets and content of this plan.

Shareholder return policy

Sustaining a stable dividend with a payout ratio target of 30%, with increased dividend possible depending on operating results

The Company fundamentally aims for a 30% dividend payout ratio as its shareholder return policy. The annual dividend was ¥30 per share in FY9/18, while from FY9/19 to FY9/21 it was ¥36. Currently, the Company is planning to pay an annual dividend of ¥36 (interim: ¥18, year-end: ¥18) for FY9/22 as well, which would work out to a forecast payout ratio of 26.4%. If results are strong, the Company may increase the annual dividend for FY9/22.

Dividend per share and dividend payout ratio



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

FISCO

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