COMPANY RESEARCH AND ANALYSIS REPORT

Arealink Co., Ltd.

8914

Tokyo Stock Exchange Second Section

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Summary

Main business is self-storage management and is aiming to be a company resilient to economic fluctuations

Arealink Co., Ltd. <8914> (hereafter, also "the Company") is the leading company in the self-storage industry known for its Hello Storage brand. Through self-storage, the Company is aiming to contribute to better lifestyles of people, achieve stable growth over the longer term with cumulative-type businesses, and pursue ESG management and solve social challenges. While maintaining a management structure of a small number of highly skilled employees, its main business is self-storage management, which generates stable earnings, and it intends to lead further progression of the industry by continuing to grow steadily in the long term regardless of economic fluctuations. In addition to its mainstay self-storage business, it conducts the land rights consolidation business and other operational services business.

1. Summary of FY12/20 results

Although sales and profits declined in the FY12/20 results, they were basically in line with the initial forecasts despite the severe management environment of the novel coronavirus pandemic (hereafter, the "coronavirus"), with net sales of ¥22,477mn (down 23.4% year on year (YoY)), operating income of ¥2,275mn (down 24.9%), and ordinary income of ¥2,161mn (down 28.0%). The main reason for the decline in operating income was the end of temporary income recorded in the previous period, including a gain on sale of a building and self-storage brokerage income. Also, the profit margin fell in the land rights consolidation business following an inventory reduction. Conversely, in self-storage management, which is the core business, profits increased significantly and drove results on the whole. This was because although the total number of units in the self-storage business increased only slightly due to the impact of the coronavirus, the occupancy rate reached its highest level in the past 10 years of 80.66%. Net income returned to profitability at ¥2,225mn (compared to a loss of ¥1,753mn in the previous period). This was because within the provision for loss on repurchases recorded in FY12/19, the provision for containers confirmed as not to be repurchased in that period was written off, and a gain on reversal of provision for loss on repurchases was recorded. As a result, the equity ratio rose to 44.6%, which is greatly above the average for the real estate industry on the Tokyo Stock Exchange (TSE) First Section of 30.7%, and the Company continues to be highly financially sound. Regarding indicators of profitability, ROA was 5.2% and ROE was 12.9%, exceeding the averages for the real estate industry on the TSE First Section of 4.3% and 8.5%, respectively.

2. FY12/21 results outlook

For the FY12/21 results, the Company expects sales to decrease while profits increase, forecasting net sales of ¥19,700mn (down 12.4% YoY), operating income of ¥2,500mn (up 9.8%), ordinary income of ¥2,400mn (up 11.0%), and net income of ¥1,400mn (down 37.1%). Net income will also increase in actual terms after excluding the effect of extraordinary income recorded in the previous fiscal period. The self-storage business, which is the core business, mainly earns stable cumulative-type income, and sales and profits are expected to increase as profitability will be pushed up by improvements in the occupancy rates of properties established through the Company's investments. Conversely, in the land rights consolidation business, sales and profits are expected to decline due to purchases of high-quality sites and changes in sales activities. The Company has a strong tendency of announcing conservative forecasts in the initial plan for the fiscal year, so as long as the business environment does not deteriorate as in the previous period, we at FISCO think it is highly likely to achieve the forecasts. It plans to increase the annual dividend per share by ¥3.0 YoY to ¥34.0, for a dividend payout ratio of 30.7%.

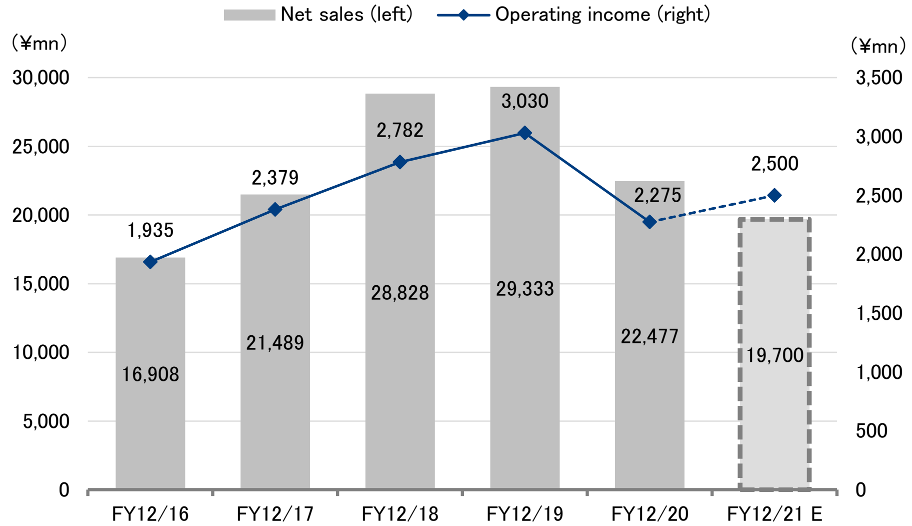
3. Medium-term management plan

Medium-Term Management Plan 21–23 (FY12/21 to FY12/23), newly announced in February 2021, targets net sales of ¥23,800mn (up 5.9% compared to FY12/20), operating income of ¥3,200mn (up 40.6%), and ordinary income of ¥3,100mn (up 43.4%) in FY12/23, and the Company is aiming to steadily increase profits by more than 10% each year even during the coronavirus pandemic. However, the forecasts for the number of newly opened self-storage units, the basis for targets, are modest, and can be considered conservative. Toward achieving the targets, it will continue to conduct business centered on self-storage management. In other words, in addition to aiming to improve profitability by progressing Company ownership, it plans to develop new products, such as opening properties for small-scale, wooden Storage Mini (provisional name) units and Hello Biz Storage, which can be used as residences. In the land rights consolidation business, it is aiming to establish and develop new styles, including sales of land with limited proprietary rights to real estate investors targeting yields from lease income, purchasing leasehold rights, and revitalizing, owning, and selling buildings (apartments, etc.). In addition, as the leader in the industry, it should be noted the Company is progressing ESG management and aiming to serve customers and shareholders while pursuing profits.

Key Points

- The leading company in the self-storage industry. Has a management structure of a small number of highly skilled employees, and is aiming for steady profit growth in the long term centered on the self-storage business
- In the FY12/20 results, profits increased significantly in self-storage management, and although sales and profits declined, realized a return to profitability
- For the FY12/21 results, is forecasting a decrease in sales but an increase in profits through transitioning to a cumulative-type business
- In the new medium-term management plan, is targeting net sales of ¥23,800mn, operating income of ¥3,200mn, and ordinary income of ¥3,100mn in FY12/23

Results trends



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

Company overview

Growth from the Hello Storage series of container storage and trunk rooms

1. Company overview

The Company, which was founded by President & CEO Naomichi Hayashi, is the leading company in the self-storage industry and is listed on the TSE Second Section. Based on its corporate philosophy of "Provide convenience, enjoyment, and excitement to the world," it has taken its self-storage business in metropolitan areas nationwide, and its business is centered on container storage (renting storage spaces such as outdoor-type containers and storage units) and rental storage (renting storage spaces within buildings). In the self-storage business, it develops the Hello Storage brand which has high name recognition nationwide. In addition to the self-storage business, it is also focusing on the land with limited proprietary rights business.

Under the leadership of President Hayashi, the Company is continuing to achieve steady growth that is not affected by economic conditions by leveraging the three strengths described below through a flexible management strategy that responds to environmental changes.

The first strength is that the Company's self-storage business has the leading share in the industry for the number of units, approximately 17% to 18%. In the self-storage industry, there is an overwhelmingly large number of small-scale companies with market shares of less than 1%. Also, in the United States, where this industry developed ahead of in Japan, 1 in every 6 households use self-storage, but in Japan, the rate is still only 1 storage unit per approximately 108 households. In recent years, needs for storage have risen centered on metropolitan areas, and it can be said that the self-storage market is expected to grow greatly in the future. The Company's business is centered on self-storage management that generates stable earnings, and it is targeting a market share of 50% in the medium term.

The second strength is that the Company's financial structure is highly sound. In FY12/20, its equity ratio was 44.6%, greatly exceeding the 30.7% average for the real estate industry on the TSE First Section in FY2019, while it seems that it is aiming to raise it to the 50% range in the medium term. It can be said that another of its strengths is that it is the only listed company that conducts a self-storage business for individuals. The Company uses its excellent financial structure as a weapon to develop its business under favorable conditions.

The third strength is that the Company is highly profitable. Specifically, at the end of December 2020, it had 76 employees (excluding directors, temporary employees, and dispatched employees), so its head office costs are small under a management structure of a small number of highly skilled employees. Also, in FY12/20, ROA was 5.2% and ROE was 12.9%, which are higher than the averages of the real estate industry on the TSE First Section of 4.3% and 8.5% respectively. The Company is aiming to further grow earnings and improve profitability by progressing the new medium-term management plan.

2. History

The Company was established in Funabashi City, Chiba Prefecture, in 1995 as WELL's Giken K.K. by Hayashi, the President and CEO, in order to launch a contracting business for the WELL's 21 cross-industrial exchange stations.

In the year after its establishment (1996), it launched a property leasing business and Hello Parking, a coin-operated parking lot business, and entered the real estate business. Subsequently, continuing on from Hello Parking, it expanded its business area by launching a series of Hello Storage businesses, including the storage space businesses of Hello Container and Hello Trunk; Hello Monthly, a monthly apartment rental business; and Hello Office, an office rental business.

The Company, which develops the Hello Storage brand nationwide, concluded a licensing agreement in 2016 to development properties in collaboration with the popular character Hello Kitty.

The Company, which had been developing the wide-ranging Hello Series, set its core business to be the self-storage business (container storage and trunk rooms), which has the advantages of little competition as a niche market and low running costs as a non-residential type of real estate, and it has aimed to expand and strengthen its business under the slogan of being “overwhelmingly No. 1 for share and quality.” On the other hand, alongside changes in the market environment, it has reviewed its growth strategy, which has been dependent on buying and selling (brokerage), over the past two years, and is converting to a policy of aiming for stable growth centered on self-storage management. Also, in February 2021, it announced Medium-Term Management Plan 21–23 and is aiming for steady growth based on a new business strategy.

The Company was listed on the TSE Mothers market in August 2003, and its listing was upgraded to the TSE Second Section in May 2020.

History

Date	History.
April 1995	Established WELL’s Giken K.K. for contracts for the WELL’s 21 warehousing office. Launched a contracting business for WELL’s 21 cross-industrial exchange stations.
April 1996	Launched a property leasing business (currently Mister Kashichi)
June 1996	Launched Hello Parking, a coin-operated parking lot business
March 1999	Launched Hello Container, a business for installing and leasing storage containers on vacant land
October 1999	Changed company name to Mister Kashichi Co., Ltd.
August 2000	Launched a coin-operated laundry business
September 2000	Conducted an absorption merger with Sysnet K.K. (property leasing business was transferred from Sysnet). Changed company name to Arealink Co., Ltd.
December 2000	Acquired all the shares of Hayashi Soken Inc., and made it a wholly owned subsidiary (absorption merger in April 2002). Launched Hello Monthly, a weekly/monthly apartment rental business.
February 2001	Launched the Hello Trunk business using vacant buildings for storage rental space
September 2002	Launched a stock management business to provide management services for the land and properties owned by the Company (currently, the Property Management Service business)
January 2003	Launched the Hello Renewal business to renovate old buildings to add value and improve management efficiency (currently, the Property Revitalization & Liquidation Service business)
June 2003	Opened Hello Bike BOX, indoor parking for motorcycles
August 2003	Listed on TSE Mothers
January 2004	Launched the Hello Office business to lease SOHO utilizing vacant buildings
February 2005	Acquired Space Products K.K., in the same industry that manages Rakuchin BOX
November 2005	Exceeded 10,000 units in the Hello Storage business
January 2008	Exceeded 30,000 units in the Hello Storage business
June 2014	Exceeded 50,000 units in the Hello Storage business
July 2015	Exceeded 60,000 units in the Hello Storage business
August 2015	Launched 2×4 (Two by Four) Trunks, suburban indoor-type rental spaces
June 2016	Concluded a licensing agreement to develop properties in collaboration with Hello Kitty
December 2016	Relocated the Head Office to Sotokanda, Chiyoda-ku, Tokyo, its current location
November 2017	Exceeded 80,000 units in the Hello Storage business
November 2018	Exceeded 90,000 units in the Hello Storage business
May 2020	Listing was upgraded to the TSE Second Section
February 2021	Announced Medium-Term Management Plan 21–23

Source: Prepared by FISCO from the Company’s website and securities report

Business description

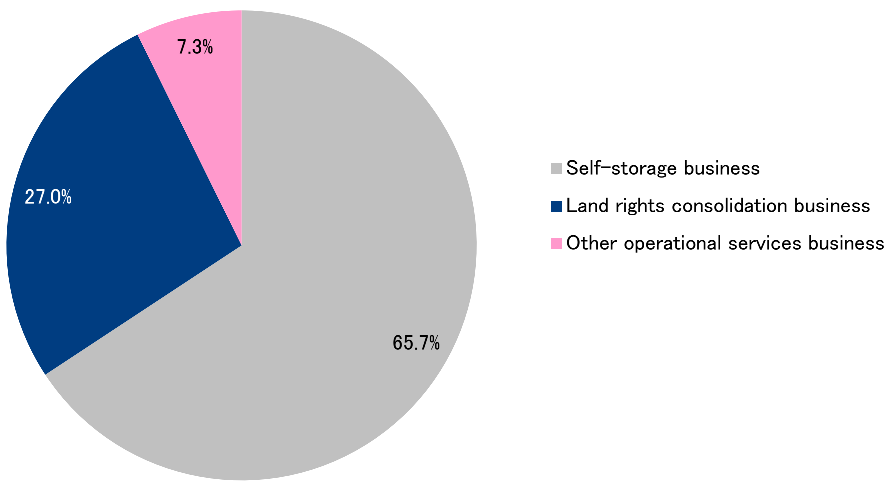
Self-storage management is the core business

1. Business segments

The Company's business is comprised of three business segments: 1) self-storage business, which is comprised of two sub-segments, self-storage management and self-storage brokerage; 2) land rights consolidation business, which includes buying and selling of land with limited proprietary rights and properties and obtaining land with limited proprietary rights lease income, and 3) other operational services business, such as rental offices and asset management. In order to further advance to the forefront of the self-storage business, which is the core business, it changed the reporting segments from FY12/20.

Looking at the breakdown of net sales by segment in FY12/20, the self-storage business provided 65.7% (self-storage management 62.4% and self-storage brokerage 3.3%), land rights consolidation business 27.0%, and other operational services business 7.3%. Conversely, in the breakdown of operating income (before deducting administrative expenses), self-storage business provided 67.5%, demonstrating it is also the Company's core business for profits, while the land rights consolidation business provided 25.3% and other operational services business 11.5%.

Breakdown of net sales by business segment
(FY12/20 net sales: ¥22,477mn)



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

2. Self-storage business

The Company is achieving growth with the self-storage business at its core, and this business also provides an overwhelming share of earnings. It develops the Hello Brand in various service formats, including for self-storage, parking lots, and rental offices. In the self-storage business, it discloses information for two sub-segments, self-storage management and self-storage brokerage.

Self-storage management is a business for the management, tenant recruitment, and administration of rental storage spaces, and it generates stable cumulative-type income. Conversely, self-storage brokerage is a business for the ordering and sales of storage as an investment product, and it can be said to generate temporary, flow-type income.

Hello Storage, which is the main brand in the self-storage business, was created to provide trunk rooms to homes and companies. Large and small indoor spaces are partitioned, and various sizes and product types are prepared and offered at reasonable prices that enable the provision of services that meet the diverse needs of customers. They can also be used safely 24 hours a day. As previously stated, the Company has the No. 1 share in the industry for the number of properties. Specifically, its product types include outdoor-type trunk rooms, indoor-type trunk rooms, the Trunk House 24 series, and motorbike storage trunk rooms.

Outdoor-type trunk rooms are the Company's main product, and it manages a network of approximately 72,000 storage units nationwide, from Hokkaido in the north to Kyushu in the south, offering large storage spaces that utilize durable containers used for maritime transportation. Features include that cars can be parked directly in front of containers, they can be used 24 hours a day, and it offers an abundance of substantial spaces that can store large volumes of items.

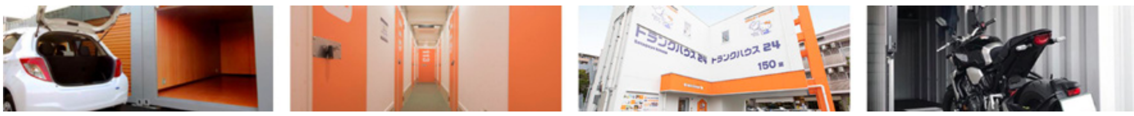
Also, the features of the indoor-type trunk rooms include the largest network of approximately 24,000 units centered on metropolitan areas, safe and secure 24-hour access thanks to the installation of security equipment, and an abundance of popular medium sizes. For the indoor-type trunk rooms, the Company renovates various spaces, such as existing buildings (all or part of a floor) and warehouses, into trunk rooms to conduct a self-storage business, and in this case the basic mechanism is the same as that for the outdoor-type containers.

Conversely, the Trunk House 24 series, which is a new brand, offers indoor-type storage spaces in buildings specifically constructed for trunk rooms. They are compact with a smart design that is not too wide and eliminates waste, and they have a chic external appearance designed to be in harmony with their surrounding environment. In addition to offering a large number of units in a variety of sizes, free parking is available, the entire building is fully secured and can be accessed 24 hours a day, the clean exteriors and interiors are recommended for women and these next-generation trunk rooms are equipped with air conditioning and elevators.

For motorbike storage trunk rooms, the Company provides parking lots (box-type) that offer safety, functionality, and convenience; blue-sky-type parking lots (parking-type) that take security into consideration; and parking lots (garage-type) that offers a space in shared indoor parking lots. It can be said that this product effectively uses vacant land.

Hello Storage product lineup

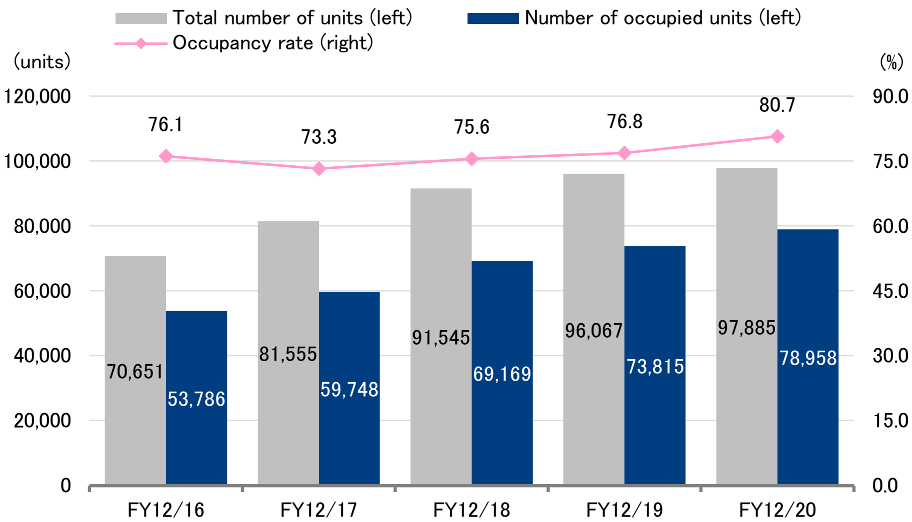
Outdoor-type trunk rooms | **Indoor-type trunk rooms** | **Trunk House 24 series** | **Motorbike storage trunk rooms**



Source: Reprinted from the Company's website

The number of Hello Storage units is increasing every year and had reached 97,885 units at the end of FY12/20. Also, since 2019, the Company has restricted property openings and carefully selected locations that meet its conditions, and as a result, the occupancy rate has risen to as high as 80.66%. In addition, alongside the coronavirus, remote working is increasing and needs to secure storage spaces at home have also increased, so it seems storage needs are growing. The customer base of the self-storage business is made up of 80% individuals and 20% corporations on a contract basis, and the average unit price is ¥14,000 a month and average period of use is 3.5 years.

Trends in the number of Hello Storage units and ccupancy conditions



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

3. Land rights consolidation business

The land rights consolidation business is a business that resolves the issues of landowners and leasehold rights holders through the trading of complex land with limited proprietary rights. Income is generated mainly from the trading of land with limited proprietary rights and real estate and lease income from land with limited proprietary rights, so it generates mainly flow-type income.

The business model for the land rights consolidation business is as follows. As a general practice, a party constructs a building on land that is rented. In this case, the owner of the building has the right to use the land (leasehold rights), and is obligated to pay rental fees as compensation for using the land. On the other hand, the landowner that owns the land cannot freely use the land as their leasehold rights are restricted. Land with attached leasehold rights in this way is called land with limited proprietary rights. Although the landowner's use of the land is restricted, they have the right to receive rental income, and this right to rent the land is called "land with limited proprietary rights."

Situations where the owners of the land and building differ create twisted and complex rights relationships, and this also affects the price of the land, so typically the leasehold rights portion is deducted. In this business, the Company acquires land with limited proprietary rights from landowners and generates income by selling those rights to building owners, while also arranging the rights relationships.

Overview of the land rights consolidation business

Source: Prepared by FISCO from Company materials

4. Other operational services business

The other operational services business is a business based on rental income, such as from offices, asset management, and rental meeting rooms, and it generates cumulative-type income. Rental offices are rented in Tokyo's 23 wards as offices for use by a small number of people under the Hello Office brand, and demand for them is growing alongside the increase in remote working due to the coronavirus. Asset management is a business for managing rentals of the real estate the Company owns, but its policy is to maintain the current situation in consideration of unstable market conditions and factors such as the risk that land prices will fall. Rental meeting rooms were rented by the hour in major metropolitan areas under the Hello Rental Meeting Room brand, but from the viewpoint of business concentration, the Company withdrew from this business in December 2020.

Results trends

The FY12/20 results were basically in line with the initial forecasts, and although sales and profits declined, net income recovered to achieve profitability

1. FY12/20 results

In the FY12/20 results, net sales were ¥22,477mn (down 23.4% YoY), operating income was ¥2,275mn (down 24.9%), ordinary income was ¥2,161mn (down 28.0%), and net income was ¥2,225mn (compared to a loss of ¥1,753mn in the previous period). The results were basically in line with the forecasts even under the severe management conditions of the coronavirus pandemic. The main reason for the decline in profits was the end of temporary income of ¥1.6bn recorded in the previous period (¥600mn as a gain on the sale of a jointly owned building in Kanda and ¥900mn from self-storage brokerage). Conversely, profits increased significantly in the core business of self-storage management, supporting results on the whole. Net income was also 7.1% higher than forecast and returned to profitability. This was because within the provision for loss on repurchases recorded in FY12/19, the provision for containers confirmed as not to be repurchased in that period was written off, and a gain on reversal of provision for loss on repurchases of ¥1,477mn was recorded.

To summarize FY12/20, it would seem that there were some positive aspects for the self-storage business, including the movement toward arranging homes alongside the increase in remote working.

Summary of FY12/20 results

(¥mn)

	FY12/19		FY12/20			YoY		vs. initial forecast	
	Results	vs. sales	Initial forecasts	Results	vs. sales	Change	Rate of change	Change	Rate of change
Net sales	29,333	100.0%	24,700	22,477	100.0%	-6,856	-23.4%	-2,222	-9.0%
Gross profit	6,663	22.7%	-	5,499	24.5%	-1,163	-17.5%	-	-
SG&A expenses	3,633	12.4%	-	3,223	14.3%	-409	-11.3%	-	-
Operating income	3,030	10.3%	2,300	2,275	10.1%	-754	-24.9%	-24	-1.0%
Ordinary income	3,000	10.2%	2,200	2,161	9.6%	-838	-28.0%	-38	-1.8%
Net income	-1,753	-	1,300	2,225	9.9%	3,978	-	925	71.2%

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

By segment, self-storage management recorded a significant increase in profits, but the land rights consolidation business saw a decline due to inventory reduction.

(1) Self-storage business

In the self-storage business, net sales were ¥14,773mn (down 33.1% YoY) and operating income was ¥2,184mn (down 5.4%). Also, this business's shares of total results were 65.7% of net sales (75.3% in the previous period) and 63.3% of operating income (55.0%), and its operating income margin was 14.8% (10.5%), so it can be said to have grown sufficiently as the core business. In the self-storage business, the Company's policy since the previous period is for the earnings foundation to be a cumulative-type business, which stably accumulates monthly income. It is progressing the long-term ownership of its own "storage with land," which is an indoor asset type, and investments to open its own container properties.

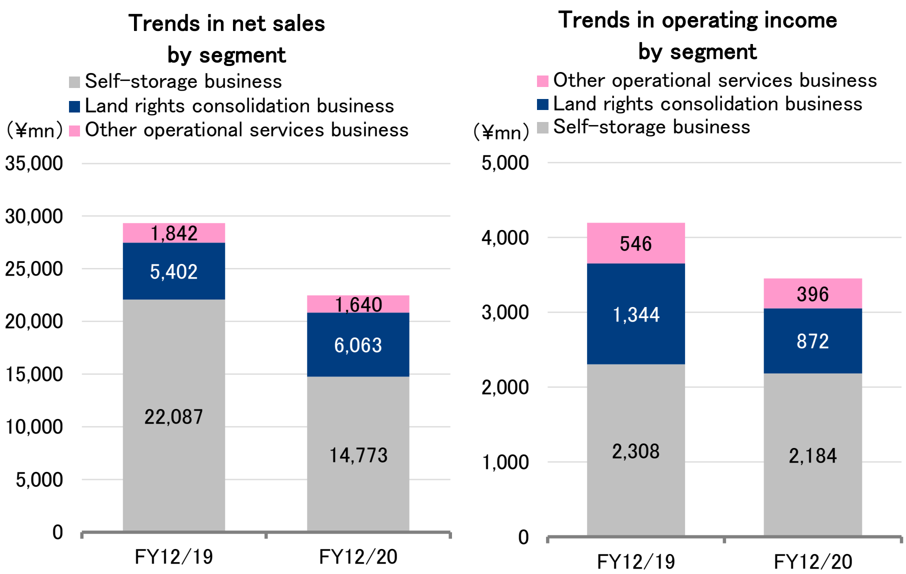
In self-storage management, which is the core business, sales and profits increased significantly, with net sales of ¥14,027mn (up 9.6% YoY) and operating income of ¥2,333mn (up 52.0%). In consideration of the deterioration of market conditions due to the coronavirus, the Company curtailed the increase in the number of units managed by transferring and cancelling contracts for properties with low occupancy rates in addition to carefully selecting property openings. However, due to a steady stream of applications for use, the occupancy rate improved by 3.82pt compared to the end of the previous period to 80.66%. In addition to profitability improving as a result of converting to Company ownership by repurchasing containers, the discount rate improved as campaigns were curbed, and a sweeping review of costs at existing workplaces also had a positive effect. Conversely, the "temporary" revenue rate declined due to sales to investors, and therefore in self-storage brokerage, net sales were ¥746mn (down 92.0%) and operating loss was ¥148mn (compared to income of ¥773mn in the previous period).

(2) Land rights consolidation business

In the land rights consolidation business, net sales were ¥6,063mn (up 12.2% YoY) and operating income was ¥872mn (down 35.1%). This business's shares of total results were 27.0% of net sales (18.4% in the previous period) and 25.3% of operating income (32.0%), while its operating income margin was 14.4% (24.9%). On considering the deterioration of the market environment due to the coronavirus, the Company temporarily suspended purchases to ensure liquidity of cash on hand, and the profit margin declined as a result of sales activities, such as focusing on inventory reduction. Another factor was that the Company is aiming to reconstruct the business model, and it disposed of past inventory.

(3) Other operational services business

In the other operational services business, net sales were ¥1,640mn (down 11.0% YoY) and operating income was ¥396mn (down 27.6%). This business's shares of total results were 7.3% of net sales (6.3% in the previous period) and 11.5% of operating income (13.0%), while the operating income margin was 24.2% (29.7%). In the asset management business, which manages the rental of real estate owned, sales declined, including due to requests for reductions in rental fees from some tenants due to the impact of the coronavirus, but occupancy conditions were still strong. In the rental meeting rooms business, sales and profits decreased significantly because of the decline in use due to the impact of the coronavirus. As previously stated, the Company withdrew from this business in December 2020 from the viewpoint of concentrating management resources into the main businesses. In the office business, the excellent occupancy rate was maintained, while the Company focused on measures to capture satellite-office demand arising from the aim of preventing the spread of the coronavirus.



Note: The breakdown of operating income is before deducting administrative expenses
Source: Prepared by FISCO from the Company's financial results

2. Financial condition and management indicators

At the end of FY12/20, current assets were down ¥3,956mn compared to the end of the previous fiscal year to ¥15,947mn. This was mainly due to decreases of ¥1,925mn in cash and deposits and ¥2,790mn in real estate for sale. Noncurrent assets increased ¥1,638mn to ¥24,755mn, primarily due to increases of ¥791mn for buildings and ¥2,150mn for tools, furniture and fixtures because of the effects of repurchases of containers. As a result, total assets were down ¥2,317mn to ¥40,702mn.

Current liabilities were down ¥5,127mn compared to the end of the previous fiscal year to ¥6,785mn, mainly due to decreases in short-term loans payable of ¥562mn, income taxes payable of ¥1,362mn, and provision for loss on repurchases of ¥2,897mn. Noncurrent liabilities increased ¥1,089mn to ¥15,777mn. Main items included a decrease of ¥637mn in long-term loans payable and an increase of ¥2,385mn in long-term accounts payable. As a result, total liabilities decreased ¥4,037mn to ¥22,563mn.

Net assets were up ¥1,720mn compared to the end of the previous fiscal year to ¥18,139mn, mainly due to an increase in retained earnings carried forward of ¥1,719mn.

From the above, interest-bearing debt, which is the total of long- and short-term loans payable, corporate bonds, and lease obligations, decreased ¥1,709mn YoY to ¥12,377mn. The equity ratio improved significantly, from 38.2% in the previous period to 44.6%, greatly exceeding the 30.7% average of the real estate industry on the TSE First Section in FY2019. Therefore, the Company can be evaluated as securing a high degree of financial stability, and it is close to achieving its equity ratio target of 50%. Regarding indicators of profitability, ROA (Return on Assets) was 5.2% and ROE (Return on Equity) was 12.9%, also greatly above the averages of the real estate industry on the TSE First Section in FY2019 of 4.3% and 8.5%, respectively.

Balance sheet and management indicators

(¥mn)

	FY12/19	FY12/20	Change
Current assets	19,903	15,947	-3,956
Cash and deposits	11,702	9,776	-1,925
Real estate for sale, real estate for sale in process	7,482	4,654	-2,827
Noncurrent assets	23,117	24,755	1,638
Property, plant and equipment	18,069	20,356	2,286
Intangible assets	68	55	-12
Investments and other assets	4,978	4,343	-634
Total assets	43,020	40,702	-2,317
Current liabilities	11,913	6,785	-5,127
Accounts payable, construction-related payables	169	158	-10
Short-term loans payable, etc.	2,713	2,086	-627
Noncurrent liabilities	14,687	15,777	1,089
Long-term loans payable, corporate bonds, etc.	11,372	10,289	-1,083
(Interest-bearing debt)	14,086	12,377	-1,709
Total liabilities	26,601	22,563	-4,037
Total net assets	16,419	18,139	1,720
Stability			
Equity ratio	38.2%	44.6%	
Profitability			
ROA (Return on Assets)	7.4%	5.2%	
ROE (Return on Equity)	-10.0%	12.9%	

Note: Interest-bearing debt is the total of long- and short-term loans payable, corporate bonds, and lease obligations
Source: Prepared by FISCO from the Company's financial results

At the end of FY12/20, the balance of cash and cash equivalents was down ¥1,925mn compared to the end of the previous fiscal year to ¥9,776mn.

Cash flow provided by operating activities was ¥2,546mn. Breaking it down, the main decreasing factors were provision for loss on repurchases of ¥2,897mn and income taxes paid, etc. of ¥2,010mn, while main increasing factors were decreases in income before income taxes of ¥3,284mn and inventories of ¥2,537mn and the recording of ¥783mn in depreciation.

Cash flow used in investing activities was ¥2,228mn. Breaking it down, the main decreasing factor was ¥2,178mn in purchase of property, plant and equipment.

Cash flow used in financing activities was ¥2,240mn. Breaking it down, the main increasing factor was ¥2,449mn in proceeds from long-term loans payable, while the main decreasing factors were a decrease in short-term loans payable of ¥562mn and repayment of long-term loans payable of ¥3,119mn.

Cash flow statement

(¥mn)

	FY12/19	FY12/20
Cash flow from operating activities	4,055	2,546
Cash flow from investing activities	-1,005	-2,228
Cash flow from financing activities	-1,020	-2,240
Balance of cash and cash equivalents at the end of the period	11,702	9,776

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

Future outlook

For FY12/21, is forecasting a decline in sales but an increase in profits from transitioning to a cumulative-type business

● **Outlook for FY12/21**

For the FY12/21 results, the Company expects sales to decline while profits increase, forecasting net sales of ¥19,700mn (down 12.4% YoY), operating income of ¥2,500mn (up 9.8%), ordinary income of ¥2,400mn (up 11.0%), and net income of ¥1,400mn (down 37.1%). It is progressing the transition to a cumulative-type business that generates stable income, so the outlook is for sales to decrease but profits to increase. Due to a special factor of recording a gain on reversal of provision for loss on repurchases (¥1,477mn), net income is forecast to decrease, but upon excluding this factor, an increase is expected on an actual basis. Incidentally, the Company has the strong tendency of announcing conservative forecasts in the initial plan for the fiscal year, so we at FISCO think it is highly likely to achieve the forecasts as long as the management environment does not deteriorate as in the previous period.

FY12/21 results forecasts

(¥mn)

	FY12/20		FY12/21		YoY	
	Results	vs. sales	Forecasts	vs. sales	Change	Rate of change
Net sales	22,477	100.0%	19,700	100.0%	-2,777	-12.4%
Operating income	2,275	10.1%	2,500	12.7%	224	9.8%
Ordinary income	2,161	9.6%	2,400	12.2%	238	11.0%
Net income	2,225	9.9%	1,400	7.1%	-825	-37.1%

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

The results forecasts by segment are as follows.

(1) Self-storage business

In the self-storage business, the forecasts are for net sales of ¥15,300mn (up 3.6% YoY), operating income of ¥3,000mn (up 37.3%), and an operating income margin of 19.6% (14.8% in the previous fiscal year). The policy is to continue to expand and grow the cumulative-type business, centered on self-storage management. By solidifying the stable earnings foundation from cumulative-type income, the Company will establish a management structure unaffected by conditions in the real estate and financial markets.

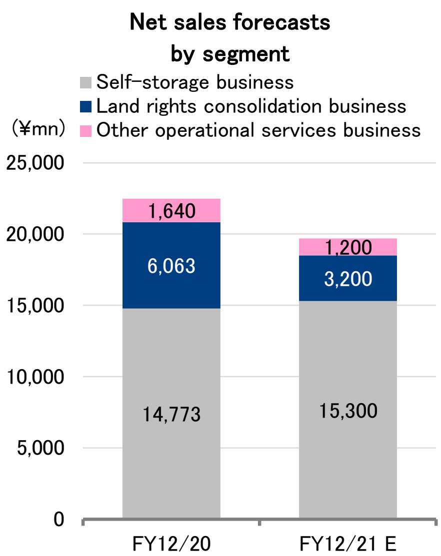
Self-storage management is the core business that supports the stable earnings foundation from cumulative-type income, and the forecasts are for increases in sales and profits to continue. The Company is aiming to further grow and expand Hello Storage as a growth business, including by improving brand power and awareness and enhancing the lineup of new products such as Hello Biz Storage, improving customer satisfaction, and developing services ancillary to storage, and as a business that contributes to an affluent society through self-storage. In addition, its ownership of containers and self-storage with land is expected to lead to improving the profitability of self-storage management in the medium to long term and strengthening the cumulative-type business through increasing income in the self-storage business. For self-storage brokerage, the forecasts are for sales and profits at the same levels as in the previous fiscal year. For outdoor-type containers and asset indoor-type self-storage with land, the plan is open properties that the Company will own, except for some properties. Therefore, the outlook is that temporarily sales and profits will not be recorded.

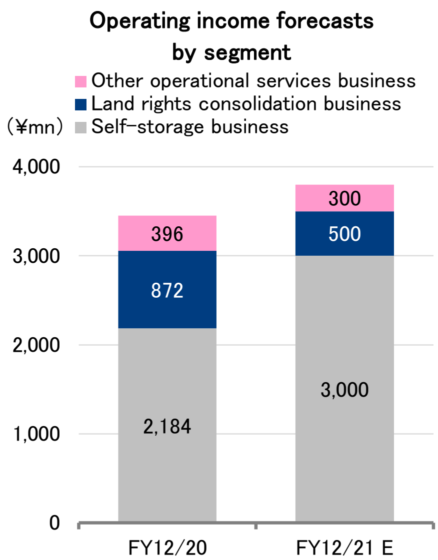
(2) Land rights consolidation business

In the land rights consolidation business, the forecasts are for net sales of ¥3,200mn (down 47.2% YoY), operating income of ¥500mn (down 42.7%), and an operating income margin of 15.6% (14.4% in the previous fiscal year). The Company intends to restart purchases of land with limited proprietary rights that were postponed from FY12/20 2H and to develop the business centered on the trading of land with limited proprietary rights. The disposal of past inventory conducted in the previous period has been completed, so the plan is to convert to purchases of and sales activities for high-quality land with limited proprietary rights.

(3) Other operational services business

In the other operational services business, the forecasts are for net sales of ¥1,200mn (down 26.8% YoY), operating income of ¥300mn (down 24.3%), and an operating income margin of 25.0% (24.2% in the previous fiscal year). In December 2020, the Company withdrew from the rental meeting rooms business, but it is forecasting increases in sales and profits for rental offices and asset management.





Note: Operating income is before deducting administrative expenses
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Growth strategy

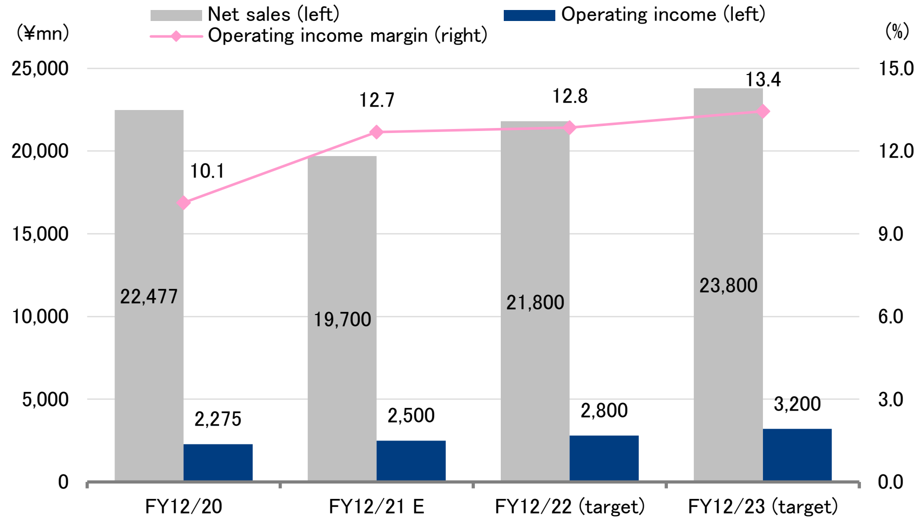
Is withdrawing from business dependent on trading and is aiming for growth centered on self-storage management

1. Targets in the medium-term management plan

The Company had been progressing the three-year medium-term management plan running from FY12/18 to FY12/20. However, the plan was suspended based on weakening in the Company's performance and the deterioration of the business environment, including a problem relating to real estate investment continuing from 2018 and changes in the approach to real estate financing by financial institutions in response to this problem. Subsequently, in February 2021, it announced Medium-Term Management Plan 21–23 to steer a course to management broadly centered on a cumulative-type business, and a path is now in sight to establish an earnings structure that enables stable growth that is not reliant on transient factors.

The management targets in Medium-Term Management Plan 21–23 (FY12/21 to FY12/23) are for net sales of ¥23,800mn (up 5.9% compared to FY12/20), operating income of ¥3,200mn (up 40.6%), and ordinary income of ¥3,100mn (up 43.4%) in FY12/23. Each year profits are expected to steadily increase by at least 10%, and the targets are ambitious. However, the forecasts for the number of newly opened self-storage units, the basis for targets, are 1,000 units in FY12/21, 2,800 units in FY12/22, and 3,700 units in FY12/23, and can be considered conservative compared to the actual result of 2,780 units in FY12/20. These conservative assumptions take the impact of the coronavirus into account, but when considering the properties already opened in FY12/21, we at FISCO think it is highly likely that the number of units opened will be higher than forecast, and therefore it is also highly likely that results will be higher than forecast.

Management targets in the medium-term management plan



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

2. Priority strategies

As its basic policy, the Company has discontinued a management and growth strategy that relies on trading (brokerage) and is instead aiming for growth centered on self-storage management. In addition to exposure to instability caused by market conditions, the trading (brokerage) the Company has engaged in so far has presented other issues, such as the extreme difficulty of managing large-scale storage with land that is expected to be traded. Therefore, after analyzing case studies of successes and failures up to the present time, the Company has set the following four priority strategies: 1) Continue business centered on self-storage (management), 2) Develop new self-storage products, 3) Sell and own land with limited proprietary rights under the new system, and 4) Progress ESG management.

(1) Continue business centered on self-storage (management)

The Company will improve profitability by progressing its own ownership of properties and opening Storage Mini (provisional name) properties. Storage Mini refers to small-scale, wooden self-storage and is a storage product that competitor companies cannot imitate in terms of cost. Specifically, it will provide around 40 units in wooden, three-story buildings, targeting regional cities with populations of around 100,000 where properties can be opened. If the self-storage of other companies represents a large supermarket, the Company's small-scale, wooden self-storage can be compared to a convenience store. Moreover, it plans to use the Hello Storage colors (orange and dark blue) for the buildings' exteriors, giving them a stylish appearance.

Previously, when the Company opened a property for large-scale self-storage with land in a densely populated area, it had a hard time trying to fill the extensive number of units. Therefore, it is currently considering opening small-scale units to make business development in regional cities possible as well. Also, its policy is to spread the use of this product in Japan first, with a view to its overseas business development in the future.

(2) Develop new self-storage products

The Company plans to launch Hello Biz Storage, which can be used as residences, in Machida City, Tokyo, in March 2021. Hello Biz Storage is self-storage that also comes equipped with warehouse, office, home, and parking lot functions. It is utilizing the knowledge it has acquired up to the present time to pursue self-storage that individuals can use. As it evolves from the business self-storage properties opened in 2020, the aim is to grow demand by offering warehouses that can also be used as residences. The plan calls for opening properties mainly in the suburbs and developing the business while mixing Company ownership, orders, and sales, and the goal is to acquire new customers by addressing new needs for apartments and condominiums that have not existed before.

Development of new self-storage products

Source: Company's results briefing materials

In addition, the Company intends to enhance self-storage services and improve name recognition. For example, Hello Home Delivery is a one-stop service for transporting belongings from home to storage in a trunk room, improving customer convenience. It is also developing a security system that's compatible with the transport system IC cards people carry with them, this revolutionary step would make it possible to use the cards to unlock trunk rooms and register multiple units without increasing the number of cards customers manage day to day. The Company plans to start by introducing it in the Trunk House 24 series and then gradually expand to other products. Moreover, by disseminating information through the kurasul website, it will continuously propose rich living that utilizes self-storage.

Furthermore, as a plan to improve its product capabilities, from 2021, the Company will start the Know the Products project by employees. It will introduce employees to uses of self-storage with land as part of the welfare program, with the aim of improving the quality of products and services based on the experience. In conjunction, employees will also get the opportunity to experience the Hello Home Delivery transportation service. The Company plans to hold a Storage Grand Prix for employees and will award prizes for the best use of self-storage. It is considered that these activities will help employees gain awareness from the customer's perspective and promote property improvement activities.

In addition, as a leading company, it will work with other companies and spread the merits of self-storage throughout the industry. Previously, the market grew as the Company grew, but through widening the appeal of self-storage within the industry, the Company will continue to grow alongside the expansion of the market going forward. As the leading company in the industry, it is aiming not only for its own growth, but also to develop the industry as whole.

(3) Sell and own land with limited proprietary rights under the new system

As issues in the land rights consolidation business were addressed in FY12/20, the Company plans to establish and develop new styles from FY12/21 onwards. Previously, it generated income by selling (land) to leasehold rights holders or purchasing (land) leasehold rights and reselling them. But going forward, it is aiming to create a business centered on land with limited proprietary rights using various "arrangement methods." Specifically, business activities will include selling land with limited proprietary rights to real estate investors targeting yields (of 3%) from lease income, purchasing leasehold rights, and revitalizing, owning, and selling buildings (apartments, etc.). Moreover, the land rights consolidation business has been focused on manual work so far, but it seems that it is also thinking of utilizing the customer management methods of the self-storage business.

Prospects for the land rights consolidation business

Source: Company's results briefing materials

(4) Progress ESG management

ESG is an acronym for Environment, Social, and Governance. Alongside the above priority strategies, as a leading company, the Company is progressing management considerate of societal and environmental issues.

First, in the self-storage business, it is aiming to contribute by improving Japan's living environment and considering the environment through effective utilization of resources. Specifically, it plans for its wooden self-storage units to be of "use for 50 years," and to use its containers for 50 to 75 years by conducting maintenance.

The Company also plans to focus on developing human resources. Specifically, it has employed home-work employees since before the coronavirus, and going forward as well, it will promote diverse ways of working, such as shortened working hours and working from home for employees raising children or providing long-term care. It also intends to develop human resources using its proprietary tools and to improve the work levels of employees. In particular, regarding the executive class, it is creating lists of future management risks and issues, managing progress toward forming fundamental solutions, and aiming to develop and utilize human resource development methods to move forward.

Based on its corporate philosophy of "Provide convenience, enjoyment, and excitement to the world," the Company's long-term vision is as follows: 1) Contribute to better lifestyles for people through self-storage, 2) Achieve stable growth over the longer term with cumulative-type businesses, and 3) Pursue ESG management and solve social challenges. In such ways, it is positioning ESG management as an important management issue that should be progressed in the long term.

In recent years, the tendency for investors, mainly institutional investors, to invest in companies that take ESG into consideration has been strengthening. In this sense, the focus is likely to be on the Company's measures for and the future development of its ESG management.

Shareholder return policy

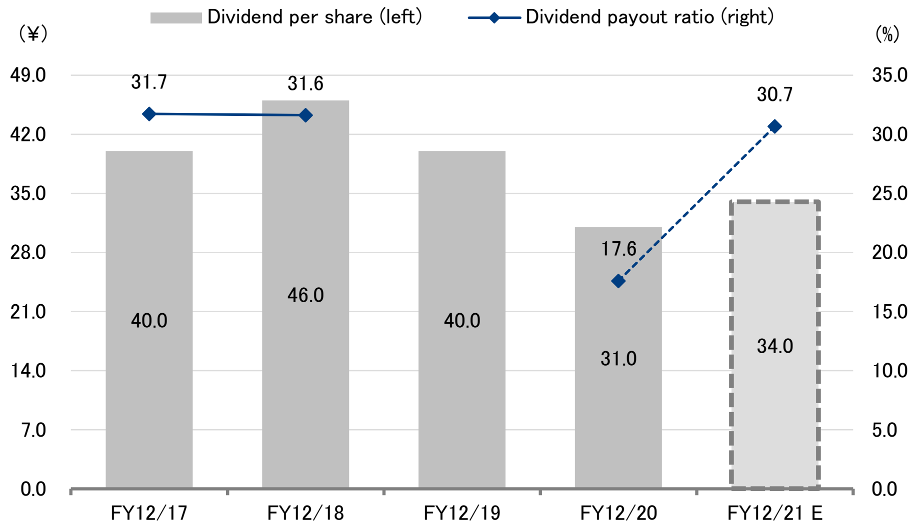
In FY12/21, will maintain the dividend payout ratio at above 30% after excluding extraordinary income-loss

Returning profits to shareholders is an important management issue for the Company, which it fundamentally performs through paying dividends. Its basic policy is to pay a single dividend at the end of the fiscal period, targeting a dividend payout ratio of 30%. It decides on the dividend based on its medium- to long-term business plan and while observing the market environment and the timing of capital investment, comprehensively taking into consideration factors such as securing internal funds, its financial condition, and the level of profits. In other words, it can be said that the Company is aiming to reach a level exceeding the average of 28.8% for the real estate industry on the TSE First Section in FY2019.

Alongside this basic policy, a dividend of ¥40.0 was paid in FY12/19 based on results after excluding extraordinary loss. Also, in FY12/20, it plans to pay a dividend of ¥31.0. While net income recovered significantly to achieve profitability, the Company decided to pay the dividend based on results excluding the effects of a gain on reversal, and on the surface, the dividend payout ratio declined to 17.6%. For FY12/21, it intends to increase the dividend to ¥34.0 for a forecast dividend payout ratio of 30.7%.

Due to changes in the management policy, the Company plans to stably increase profits going forward centered on a cumulative-type business based on the new medium-term management plan. Therefore, we at FISCO think that if it achieves results in line with the targets, further dividend increases can be expected.

Trends in dividend per share and the dividend payout ratio



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

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