COMPANY RESEARCH AND ANALYSIS REPORT

FJ NEXT CO., LTD.

8935

Tokyo Stock Exchange First Section

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Summary

Developing asset management-type condominiums under the Gala brand. The FY3/20 results were record highs (net sales for the fifth consecutive fiscal period). In FY3/21, sales and profits are forecast to temporarily decline due to the coronavirus pandemic

1. Company profile

FJ NEXT CO., LTD. <8935> (hereafter, also "the Company") conducts its mainstay business of the development and sales of the Gala Condominium series, which are asset management-type condominiums located mainly in the center of Tokyo, and the Gala Residence series, which are condominiums for families. It also conducts a real estate management business, primarily for the properties that it has sold. It secures high occupancy rates through planning and design that are based on the residents' perspectives, such as for design features, safety, and comfort. In this way, it has increased the value of the Gala brand and boasts the leading sales performance in the Tokyo metropolitan area. The Company's results have been steadily expanding because demand is strong from individuals who feel concerns about the future, such as about receiving a pension, and also who are facing new problems, like the steps to take in response to inheritance tax. Although the Company is presently being affected by the impact of the coronavirus pandemic (including delays to projects currently underway), fundamentally there have been no changes to the external environment that it is benefitting from (such as residents' needs and the financial environment), and it is aiming for sustainable growth in the future also.

2. Summary of the FY3/20 results

In the FY3/20 results, sales and profits increased and were new record highs, with net sales rising 4.1% year-on-year (YoY) to ¥84,840mn and operating income growing 3.2% to ¥10,412mn. However, the results were below the forecasts, mainly due to the impact of the coronavirus pandemic. Benefitting from the favorable external environment and other factors, sales grew in every business. The reason why results were below forecast was that although the number of condominium units sold increased to 2,555 units (up 93 units YoY) in the mainstay real estate development business, the effects of the consumption tax hike overlapped with the delays in delivering properties due to the coronavirus pandemic at the end of the period, so this number did not reach the forecast (2,800 units). Conversely, in the real estate management business, which is a stable source of earnings, results steadily grew due to the increase in the number of managed rental units. Results also trended strongly overall in the construction business and the Japanese inn business. Moreover, it seems that the Company was able to secure land purchases and other factors that will affect results growth in the future as planned.

3. FY3/21 forecasts

For the FY3/21 results, at the current time the Company is forecasting decreases in sales and profits, with net sales to decline 16.3% YoY to ¥71,000mn and operating income to fall 28.0% to ¥7,500mn. The reason for forecasting declines in earnings is that in the real estate development business, it is assuming that the impact of the coronavirus pandemic will continue to a certain extent until around the end of the 2Q, so it has set the forecast for the number of units sold as 1,900 units (down 655 units YoY). However, during the coronavirus pandemic, the environment continues to be severe for certain types of real estate, like commercial facilities and hotels, while the rental real estate handled by the Company is generally stable. Therefore, it can be said that the downside risk is limited. The operating income margin will also decline to 10.6% (12.3% in the previous period). But even so, it is assumed that the operating income margin will be maintained at a double-digit level, supported by the real estate management business that has a high profit margin. For the dividend, despite the forecast of a decline in profits, the Company plans to pay a dividend per share of ¥44 (interim ¥22, period-end ¥22, forecast dividend payout ratio, 28.8%), which is the same amount as in the previous fiscal year.

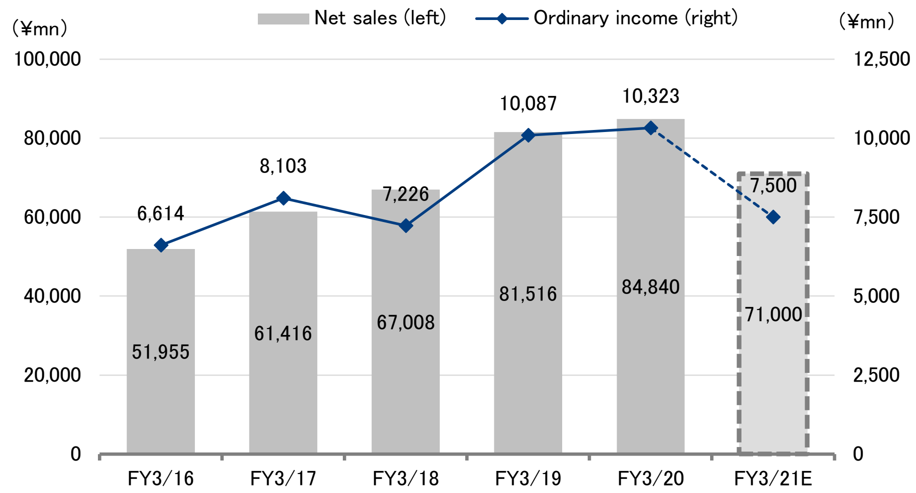
4. Growth strategy

The Company's policy is to realize sustainable growth by playing a social significant role through its asset management-type condominiums business, including by providing high-quality housing in the city-center areas into which the population is regressing, and providing opportunities for long-term asset management, mainly for general salaried workers. Recently, there has been a trend for major developers to enter-into the asset management-type condominiums market, and this can be said to be evidence of the fact that this market is recognized to be attractive. Although the impact of the coronavirus pandemic is a concern at the present time, it seems important for the Company to continue with activities that will link its own growth to the development of the market as a whole through conducting sales with an eye to the future, such as utilizing content marketing (a membership base of around 200,000 people).

Key Points

- In FY3/20, results were new record highs (net sales for the fifth consecutive period) due to the increases in sales and profits
- In addition to the expansion in rental demand in the Tokyo metropolitan area where the population is regressing, the Company's growth is being supported by the improved recognition of its products as an asset-management method
- For FY3/21, is forecasting temporary declines in sales and profits (but plans to keep the dividend the same as in the previous fiscal year) due to the impact of the coronavirus pandemic (including delays to projects currently underway). Compared to real estate like commercial facilities and hotels, the rental real estate that the Company handles is generally stable and the downside risk can be said to be limited
- Going forward, the strategy is to link its own growth to the development of the market as a whole, as a leading company

Results trends



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

Company profile

Focuses on an asset management-type condominiums business based in central Tokyo

1. Business overview

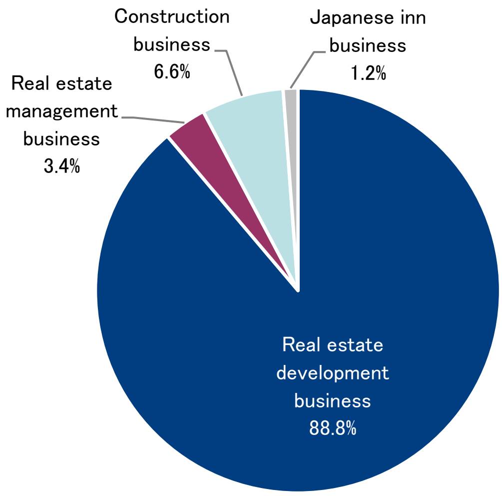
The Company's mainstay business is the development and sales of the Gala Condominium series, which are asset management-type condominiums located mainly in the center of Tokyo, and the Gala Residence series, which are condominiums for families. It also conducts a real estate management business, primarily of the properties that it has sold. It has four business segments; "the real estate development business," "the real estate management business," "the construction business," and "the Japanese inn business." The mainstay real estate development business contributes 88.8% of net sales.

Business content by segments

Real estate development business	The Company plans, develops, and conducts sub-lot sales of the studio-type condominium Gala Condominium series, which are mainly for asset management, and the family-type condominium Gala Residence series. It also conducts sub-lot sales, sales, and a brokerage business for land and properties in the Izu region. It is actively working to expand purchases and sales of previously owned condominiums.
Real estate management business	The Company mainly conducts a rental building management business of its sub-lot condominiums. It is conducted by the Company's consolidated subsidiary, FJ COMMUNITY CO., LTD.
Construction business	It mainly conducts the design, construction, inspection, and renovation of condominiums and other buildings. It is conducted by the Company's consolidated subsidiary RESITEC CO., LTD.
Japanese inn business	It manages the Ito Yukitei and Ito Yukitei Kawana Bettei hot spring ryokans (Japanese inns) in Ito City, Shizuoka Prefecture, and the Gyokuhokan hot spring ryokan in Kawazu Town, Kamo District, Shizuoka Prefecture. In May 2019, the Company acquired the Seiryuso hot spring ryokan in Shimoda City, Shizuoka Prefecture. It is conducted by the Company's consolidated subsidiary FJ RESORT MANAGEMENT CO., LTD.

Source: Prepared by FISCO from the Company's materials

Sales ratios by segment (FY3/20)



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

2. History

Mr. Yukiharu Hida, the Company's current Chairman, President and CEO, has said that "We want to support customers' asset management and increase the value of their real estate by creating high-level living spaces that people will enjoy living in, and by building a comprehensive asset management and management system in order to maintain asset value over the long term," while its management philosophy is "Contributing to the formation of an affluent society through taking on the challenge of creating urban living spaces." Based on these philosophies, the Company was established in July 1980 as Fudo Juhan Co., Ltd.

In 1991, it changed its company name to FJ NEXT Co., Ltd. (with the "FJ" written in Japanese characters. In 2007, it changed how "FJ" was written to using Western characters). In 1994, it launched sales of the Gala Condominium series, which is its own brand, and its results have steadily expanded against the backdrop of growth in rental demand for asset management-type condominiums and also the demand for purchases. In particular, the Company's results have been supported by the improvement in the trust placed in and the awareness of the Gala brand, which prioritizes profitability with an approach of returning income to investors.

After being listed on JASDAQ in 2004, its creditworthiness, financial strength and other attributes from being a listed company further increased its advantages in the areas of sales, and purchases and development. This was in addition to its track record of supplying properties up to that time, and they accelerated the Company's growth. In 2005, it achieved first place for the first time in the ranking of the number of investment condominiums supplied in the Tokyo metropolitan area (from research by the Real Estate Economic Institute Co., Ltd.). Its listing was changed to the Tokyo Stock Exchange (TSE) 2nd Section in March 2007, and then it was designated onto the 1st Section in October 2013.

In the ranking of the number of investment condominiums supplied in the Tokyo metropolitan area (from research by the Real Estate Economic Institute Co., Ltd.)., the Company has constantly maintained a top-class ranking (1st in 2015 and 2016, 2nd in 2017, and 1st in 2019 1H) and has established a leading position within the industry.

Characteristics of the Company

Leveraging its position in the industry, its strengths are creditworthiness, financial strength, and information volume

1. Growth model

The Company's growth model is comprised of two growth drivers; expanding the asset management-type condominiums market itself, and it is maintaining and improving its market share. In other words, to understand its growth potential, it is important to ascertain two aspects; how will the asset management-type condominiums market in the Tokyo metropolitan area (particularly the city center) develop, and within this development, how will the Company be able to demonstrate its competitive advantages? In addition, a feature of the real estate management business, which is ancillary to the main business, is that it supports profits as a stock business that accumulates income.

Moreover, recently, the Company has been active in areas such as the development and sale of family-type condominiums* and the handling of previously owned condominiums. Its main business is ultimately providing asset management-type condominiums on the assumption that they will be held for the long term. But business development into fields utilizing the management resources it has cultivated up to the present time (including its financial base and information capabilities) can be expected to improve results while also keeping-down risk, and thereby have the effect of adding depth to the profit structure (management stability).

* The (cumulative) number of family-type condominiums supplied in the Gala Residence series has steadily increased to 1,647 units. Looking to the future also, the Company is currently progressing new projects, including Gala Residence Yokohama Kamiooka and Gala Residence Minami Urawa (both scheduled for completion in March 2021).

2. An overview of asset management-type condominiums and their future development potential

In order to judge the future development potential of asset management-type condominiums, it is necessary to understand their mechanism, product characteristics, and social significance.

(1) Mechanism

The objective for asset management-type condominiums is not for the purchaser (the owner) to live in them, but to earn rental income by renting them to a third party. Therefore, the Company stably generates rental income, and thereby builds the trust of the owners, by securing high occupancy rates through the development of condominiums that ascertain the needs of residents, in addition to having good locations.

(2) Their aim and merits for the owners

Following the increased awareness of its products, many owners in recent years have been general salaried workers, and in most cases, they purchase with the aim of conducting asset management for the future. While securing the funds for the purchase from a home loan, generally, the monthly repayments are within the range of rental income and the owners' plan is to complete the repayments by the time they retire. Therefore, in principle, they can carry out asset management for the future from a long-term perspective without it affecting their daily lives. Also, in addition to the fact that stable rental income plays the role of a private pension in old age, a feature of the products is that they has various other merits, including replacing life insurance from the purchase of a home loan as a set with group credit life insurance, responding to inheritance tax measures (which has the effect of keeping down the inheritance tax valuation amount), and they also have the effect of diversifying investments. In particular, in addition to the introduction of a negative interest rate policy and concerns about receiving a pension in the future, the need for new measures to respond to inheritance tax means that asset management-type condominiums are attracting attention.

(3) Social significance

The main customer group for asset management-type condominiums is general salaried workers, and the business has the social significance of providing opportunities for long-term asset management, and at the same time, of providing high-quality rental properties in city center areas into which the population is regressing. In the future also, it is forecast that the trends of an increase in the number of single-person households and the regression of the population to city centers will continue. It considered that the importance of providing infrastructure to support single persons living in city centers will increase more and more.

3. The Company's features (competitive advantages)

The Company continues to boast the highest number of units sold in the Tokyo metropolitan area, and its competitive advantages can be arranged as follows.

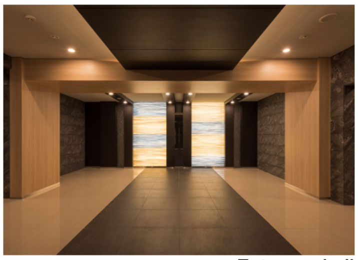
(1) Provides high-quality living environments based on a clear product concept

The Company is developing the asset management-type Gala Condominium series and the family-type condominium Gala Residence series as its own brands. It conducts planning and development from the perspective of residents, which has increased the value of the Gala brand, and this is demonstrated by its track record of supplying properties and high occupancy rates up to the present time. In particular, the features of its mainstay, asset management-type Gala Condominium series are entrances with a feeling of luxury, an external appearance featuring excellent designs, safety, and facilities specifications that emphasize comfort. Gala Hills Shinjuku won the National Association of Living Industries'*1 4th Excellent Project Award*2 in 2014, and Gala Precious Kawasaki won the 7th award in 2017. In addition, based on the expertise that the Company has cultivated for asset management-type condominiums, the features of the family-type condominium Gala Residence series are easy traffic access, a surrounding environment that is rich in amenities and convenience, and advanced design features with high basic performance.

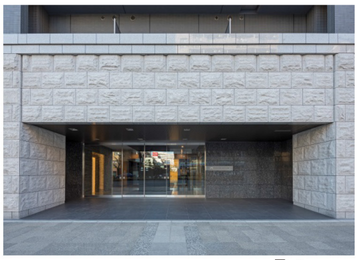
*1 This organization has 1,500 companies in all Japan in the real estate industry, mainly consisting of mid-sized companies but also including listed companies.
*2 With the aim to promote quality housing provision and development of living environments, etc., this award is given to an excellent project selected out of projects by members from the National Association of Living Industries, that excels in creativity to form good living environments, with sociability, product planning, residential performance and designing, as well as harmony with the townscape and the surrounding environment, etc.

Gala Precious Kawasaki (a total of 273 units)


Exterior


Entrance hall


Front services counter

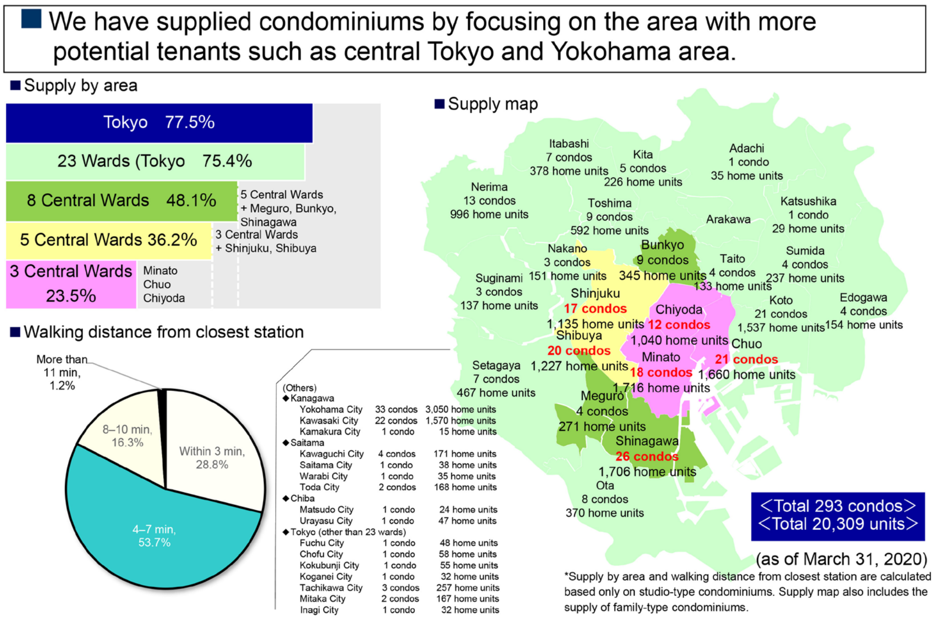

Entrance

Source: The Company's press release

(2) Focuses on good locations and information capabilities

It goes without saying that the most important element in the evaluation of the asset value of rental housing is a good location. Therefore, whether a company is able to purchase land in good locations will greatly influence its competitiveness. On the other hand, there is a tendency for location information to gather in companies with a track record of results and financial strength, so there is an industry structure in which the strong become even stronger. In the case of the Company, it has industry-leading sales results (it has a record of providing a cumulative total of more than 20,000 units up until now), strong brand power, and a stable financial base. It also has a competitive advantage in terms of information capabilities, and it is considered that this is producing a virtuous circle, as it further improves its sales results and brand power, which in turn increases its information capabilities. The Company specializes in areas in which the need for housing is high, particularly in central Tokyo, Yokohama, and Kawasaki. In addition, it carefully selects and provides locations; for example, more than 98% of its properties are within 10 minutes of their nearest station.

Supply area of Gala condominiums series



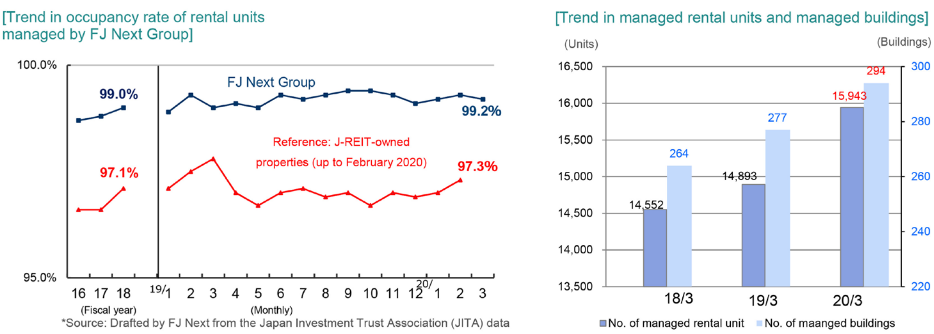
Source: The Company's financial briefing supplementary materials

(3) High level rental management expertise and extensive after-sales support

The Company aims to maintain its occupancy rates through maintaining its assets by conducting real estate management of the properties it sells, and through providing services that are useful for the residents' lives (concierge services). In addition, it offers complete after-sales support, such as reviewing asset management plans and providing consultations on selling properties, which earns it the strong trust of owners. Looking at the results for the number of managed rental units, this number has grown steadily year by year alongside the results for the supply of its own-brand properties, and by the end of FY3/20, it had increased to 15,943 units. On the other hand, the occupancy rates have trended stably at extremely high levels, averaging approximately 99.2%* at the end of FY3/20, due to the Company's strict selection of good locations and its accumulation of management expertise.

* For your reference, the occupancy rate for properties included in J-REIT is an average of approximately 97.3% (as of February 29, 2020; Source: The Investment Trusts Association, Japan), so the Company's occupancy rate is above this average.

Trend in occupancy rate and number of managed rental units



Source: The Company's financial briefing supplementary materials

(4) Attributes of owners and residents

The owners are nearly all general salaried workers such as company employees or public servants, with approximately 89% in their 20s to 40s. Also, even though the locations of the properties are in the Tokyo metropolitan area, the owners live throughout the country, showing that their objective for their purchase is long-term asset management. On the other hand, the residents are often single company workers in their 20s to 30s, because the properties have excellent locations, facilities, and specifications, so there is strong demand for them as company housing. They are also very popular among women thanks to their high-level security and kitchen and bathroom facilities.

Industry environment

Investment condominiums in the Tokyo metropolitan area are trending strongly, supported by the needs of individual investors

1. Sales environment

The number of investment condominiums supplied in the Tokyo metropolitan area steadily grew from the second half of the 1990s to the first half of the 2000s. However, it subsequently trended downward due to the bankruptcies and withdrawals of a succession of businesses because of the effects of soaring land prices and the economic crisis triggered by the Lehman Brothers bankruptcy in 2008. But this decline bottomed-out in 2010, and in the last few years, rental demand in the Tokyo metropolitan area has been growing against the backdrop of the increase in the number of single-person households and the regression of the population to the city center. Furthermore, in addition to the continuing low interest rates and concerns about receiving a pension in the future, a new need has emerged for measures to respond to inheritance tax (which was increased by lower the basic deduction). While the overall condominium industry is headed towards a consolidation phase due to a rise in lease prices the number has trended strongly, supported by the robust demand for purchases from individuals. The background to this is considered to be that as an asset management method for the future, compared to other methods, such as stocks, investment trusts, and bonds, purchasing an investment condominium can be expected to have tax-saving effects and an insurance function, while it also offers a sense of security from providing a stable cash flow and as an investment in a tangible asset.

In the past, there were concerns about the impact on real estate investment loans as a whole (the possibility that banks would become more cautious) following the discovery of illegal loans by a regional bank. But no change has been seen in their approach to financing high-asset value investment studio-type condominiums in good locations, such as the Company's properties. In this situation, it also seems that the Company's track record of supplying properties, its brand power, and the stability of its financial base are factors supporting purchasing demand. This can be considered to demonstrate the reliability of the Company and its businesses model.

2. The purchase and development environment

On the other hand, in terms of purchases and development, as land-purchase prices and construction costs remain at high levels, it has become even more important to ascertain which sites will be profitable, and it is increasingly likely that business results will be determined by the outcomes of land purchases. The Company utilizes its creditworthiness, financial strength, and abundant information capabilities, and its consistent policy since its establishment has been to purchase sites while prioritizing profitability.

3. Competitive environment

Its industry peers are mostly specialists in investment condominiums, and the industry structure is that there are many companies that are comparatively small scale. In this situation, the Company has constantly achieved the leading sales results in the ranking of the number of investment condominium units supplied in the Tokyo metropolitan area. Recently, there has been a movement toward entry by major developers that have an eye on the market's expansion.

Results trends

Results marked a record high, benefiting from the favorable external environment. Secures a stable and high-level financial base

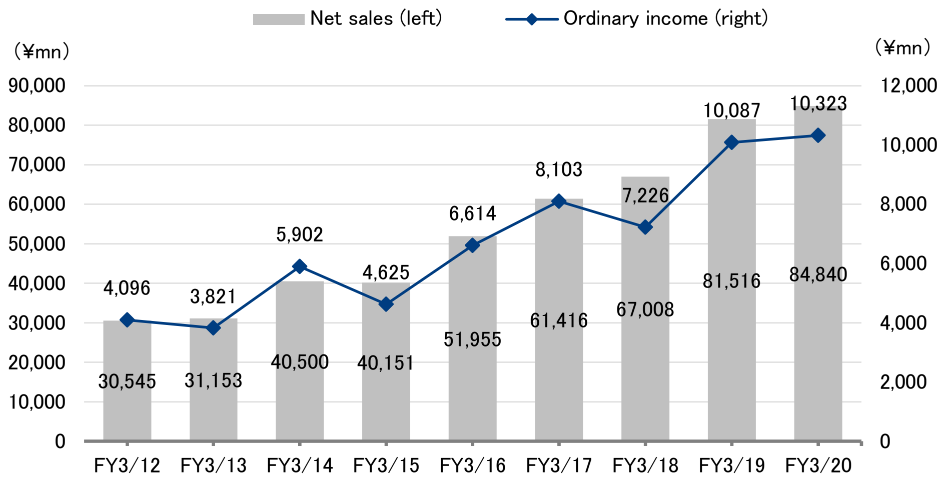
1. Trends in past results

On looking back on past results, we see that as a whole they have trended steadily, supported by growth in rental demand and the demand for purchases of asset management-type condominiums in the Tokyo metropolitan area. The results hit bottom in FY3/09 due to the effects of the economic recession following the Lehman Shock. But based on its policy of not simply pursuing a balance of purchases and instead continuing to purchase land that matched its profitability standard, by steadily advancing property development, the Company was able to ride-out the recession with a comparatively small decline compared to the real estate industry as a whole, which suffered greatly. Subsequently, its results expanded steadily alongside the economic recovery. In FY3/15, there was a temporary levelling-off of results due to the timing of construction completion, but since FY3/16, its sales and profits have continued to increase significantly, and net sales achieved record highs for five consecutive periods. This shows that even though the Company is now quite experienced as a company, it is still in a growth process.

Financially, the interest-bearing debt balance has increased alongside the growth in the results, while the equity ratio is also being maintained at a high level due to the accumulation of internal reserves, and there are no concerns about the stability of its financial base.

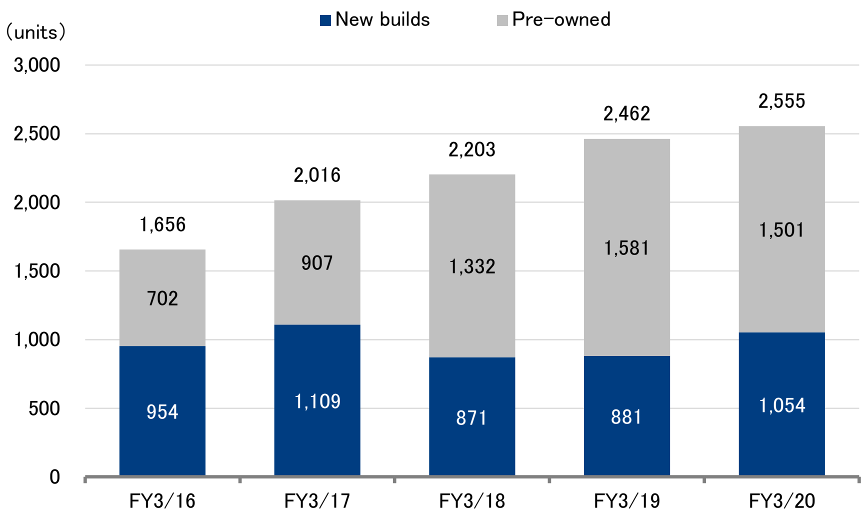
The reasons why the Company was able to ride-out the severe market environment that followed the economic crisis triggered by the Lehman Brothers bankruptcy comparatively smoothly can be said to be as follows; the high asset value of the Gala brand that prioritizes profitability from an approach of returning income to investors, including by the strict selection of good locations, and the stability of its financial base.

Trends in net sales and ordinary income

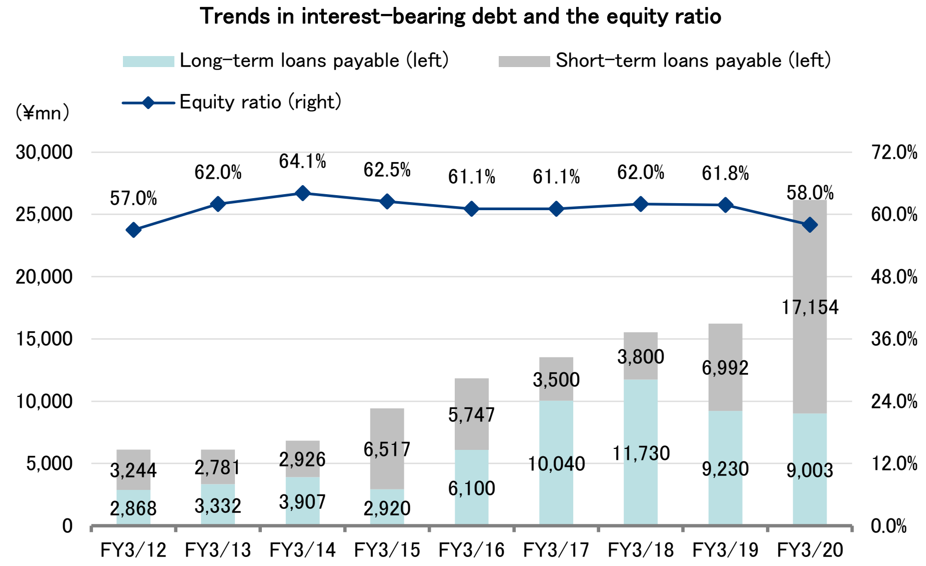


Source: Prepared by FISCO from the Company's financial results

Trend in condominium sales



Source: prepared by FISCO from the Company's financial briefing supplementary materials



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

2. Summary of the FY3/20 results

In the FY3/20 results, sales and profits increased and were new record highs, with net sales rising 4.1% YoY to ¥84,840mn, operating income growing 3.2% to ¥10,412mn, ordinary income climbing 2.3% to ¥10,323mn, and net income attributable to shareholders of parent company increasing 3.0% to ¥6,732mn. However, the results were below the initial forecasts, mainly due to the impact of the coronavirus pandemic.

Benefitting from the favorable external environment and other factors, sales grew in every business. However, the reason why sales were below forecast was that although the number of condominium units sold increased to 2,555 units (up 93 units YoY) in the mainstay real estate development business, the effects of the consumption tax hike overlapped with the delays in delivering properties due to the coronavirus pandemic at the end of the period, so the number did not reach the forecast (2,800 units). This caused results as a whole to be below forecast. Conversely, in the real estate management business, which is a stable source of earnings, results steadily grew due to the increase in the number of managed rental units*. Results trended strongly overall in the construction business, mainly for condominium construction and large-scale repair work. Results also grew significantly in the Japanese inn business, due to the contribution of the newly acquired Seiryuso hot spring Japanese inn.

* At the end of March 2020, the number of managed rental units was 15,943 units (up 1,050 units on the end of previous period) and the number of managed rental properties was 294 properties (up 17 properties), so both increased significantly. In addition to the new management contracting of properties developed by the Company itself, the active promotion of external receipts of orders contributed to the business expansion.

For profits, in a situation in which land-purchase prices and construction costs remain high, the costs-of-sales rate trended basically unchanged. SG&A expenses rose slightly, but the Company still achieved an increase in operating income due to the effects of the higher sales. It was also able to maintain the operating income margin at the high level of 12.3% (12.4% in the previous period). Looking by business, while the real estate development business realized a major increase in profits, profits declined in the other three businesses. This was mainly due to the increase in personnel costs in the real estate management business, a decline due to a special factor* in the previous period in the construction business, and the initial costs alongside the acquisition of a new property in the Japanese inn business. So, it can be said that apart from in the real estate management business, these profit-decrease factors are temporary. Conversely, in the real estate management business, personnel costs are forecast to remain high in the future as well, but the key point to focus on here is that as before, this business is securing a high profit margin (27.2%).

* The profit level temporarily increased in FY3/19 due to the recording of wholesale sale of a condominium, so profits declined in FY3/20 as a reaction to this.

For the balance of inventory assets (pipeline) that will affect results growth in the future, real estate for sale in process declined slightly, but real estate for sale (completed condominiums) rose, so inventory assets as a whole increased 6.8% on the end of the previous fiscal period to ¥55,698mn. The main reason why real estate for sale in process decreased but real estate for sale (completed condominiums) increased was the transfers between the accounts became concentrated because many properties were completed close to the end of the period. Therefore, while it will be necessary to pay attention to sales conditions in the future, this situation can be regarded as temporary because purchasing demand for asset management-type condominiums is deep rooted. Also, while real estate for sale in process decreased due to the above-described reason, the Company was able to secure land purchases as planned. On the other hand, the number of previously owned condominiums*1, a business that the Company is strategically working on, was 1,501 units within the total number of units sold (2,555 units) and 1,086 units within the number of real estate for sale at the end of the period (1,632 units), and they continue to contribute greatly to results, including from rental income during the period held.*2

*1 The Company is sequentially increasing sales of previously owned condominiums while aiming to coordinate this with the completion schedule for newly built properties. These condominiums also have the aspect of being a stock business, with rental income being obtained during the period in which they are held. At FISCO, we are focusing on the point that these efforts for previously owned condominiums are securing earning opportunities unique to the Company, which means it is not reliant only on newly constructed properties. Moreover, for the owners, the activation (the depth of the liquidity) of the previously owned condominiums market can be evaluated as having significant merits, for as and when they are needed.

*2 Rental income is included in the real estate development business. In FY3/20, rental income greatly increased 13.2% YoY to ¥7,217mn.

Financially, total assets were up 19.3% on the end of the previous fiscal period to ¥86,719mn due to the increases in cash and deposits and inventory assets. Shareholders' equity rose 12.0% to ¥50,314mn because of the accumulation of internal reserves, and therefore the equity ratio fell slightly to 58.0% (61.8% at the end of the previous period). Interest bearing debt also increased greatly, up 61.3% to ¥26,158mn, in a balanced form between cash and deposits and inventory assets. However, the degree of reliance on interest-bearing debt*1 is at the low level of 30.2%, and in addition, the current ratio*2, which indicates payment capabilities, is at the high level of 346.6%, so there are no concerns about the Company's financial soundness. ROE, which shows capital efficiency, was 14.1% (15.5% in the previous period) and was maintained at a double-digit level, so it can be said that the Company's financial position is well balanced.

*1 Interest-bearing debt ÷ (total liabilities + total net assets)

*2 Current assets ÷ current liabilities

Overview of FY3/20 results

(¥mn)

	FY3/19		FY3/20		Change		FY3/20		Difference	
	Results	% of net sales	Results	% of net sales		% of change	Initial forecast	% of net sales		Difference rate
Net sales	81,516		84,840		3,324	4.1%	90,000		5,160	-5.7%
Real estate development	72,696	89.2%	75,356	88.8%	2,660	3.7%	-	-	-	-
Real estate management	2,606	3.2%	2,910	3.4%	304	11.7%	-	-	-	-
Construction	5,368	6.6%	5,570	6.6%	202	3.8%	-	-	-	-
Japanese inn	845	1.0%	1,002	1.2%	157	18.6%	-	-	-	-
Cost of sales	62,359	76.5%	64,754	76.3%	2,394	3.8%	-	-	-	-
Gross profit	19,156	23.5%	20,086	23.7%	929	4.9%	-	-	-	-
SG&A expenses	9,063	11.1%	9,673	11.4%	609	6.7%	-	-	-	-
Operating income	10,093	12.4%	10,412	12.3%	319	3.2%	11,000	12.2%	-588	-5.3%
Real estate development	8,502	11.7%	9,085	12.1%	583	6.9%	-	-	-	-
Real estate management	852	32.7%	791	27.2%	-60	-7.1%	-	-	-	-
Construction	654	12.2%	518	9.3%	-136	-20.8%	-	-	-	-
Japanese inn	35	4.1%	-28	-2.8%	-64	-	-	-	-	-
Adjustment amount	48	-	46	-	-2	-	-	-	-	-
Ordinary income	10,087	12.4%	10,323	12.2%	236	2.3%	11,000	12.2%	-677	-6.2%
Net income attributable to shareholders of parent company	6,538	8.0%	6,732	7.9%	193	3.0%	7,000	7.8%	-268	-3.8%
Condominium sales	2,462		2,555		93	3.8%	2,800		-245	-8.8%
Gala condominium series	648		847		199	30.7%	-	-	-	-
Gala Residence series	233		207		-26	-11.2%	-	-	-	-
Previously owned condominiums	1,581		1,501		-80	-5.1%				
Balance of inventory assets	52,128		55,698		3,570	6.8%				
Real estate for sale	25,450		29,850		4,400	17.3%				
Real estate for sale in process	26,678		25,848		-830	-3.1%				
Total assets	72,686		86,719		14,033	19.3%				
Shareholders' equity	44,942		50,314		5,372	12.0%				
Equity ratio	61.8%		58.0%		-3.8pt	-				
Interest-bearing debt ratio	16,222		26,158		9,936	61.3%				
ROE	15.5%		14.1%		-1.4pt	-				

Source: prepared by FISCO from the financial summary report and the financial briefing supplementary materials

On considering the impact of the coronavirus pandemic and other factors, is currently forecasting declines in sales and profits in FY3/21

3. FY3/21 forecasts

For the FY3/21 results, the Company is currently forecasting declines in sales and profits, with net sales to decrease 16.3% YoY to ¥71,000mn, operating income to fall 28.0% to ¥7,500mn, ordinary income to decline 27.4% to ¥7,500mn, and net income attributable to shareholders of parent company to decrease 25.7% to ¥5,000mn.

The reason for forecasting a decline in sales is that in the real estate development business, it is assuming that the impact of the coronavirus pandemic on purchasing demand will continue to a certain extent until around the end of the 2Q, so it has set the forecast for the number of units sold as 1,900 units (down 655 units YoY). The forecast also incorporates the decline in the Japanese inn business due to temporary closures (of inns already opened) to meet the requirements of local governments under the declaration of a state of emergency.

In profits, the operating income margin will also decline to 10.6% (12.3% in the previous period) alongside the decline in profits. But even so, it is assumed that the operating income margin will be maintained at a double-digit level, supported by the real estate management business that has a high profit margin.

At FISCO, we think that it will be necessary to continue to pay attention to the impact of the coronavirus pandemic on purchasing demand and sales activities. However, we consider that the Company is fully capable of achieving its results forecasts when judging the factors comprehensively, including that potential purchasing demand is strong due to the firm rental demand in the Tokyo metropolitan area and that it is steadily accumulating inventory assets (pipeline). In particular, although the environment continues to be severe during the coronavirus pandemic for certain types of real estate, like commercial facilities and hotels, the rental real estate handled by the Company is generally stable. Therefore, it can be said that the downside risk is limited. Of course, it will be necessary to follow-up on how results trend and developments in purchasing demand in each fiscal quarter, and to pay close attention to both the positive and negative aspects that may cause results to fluctuate.

Forecast for FY3/21

(¥mn)

	FY3/20		FY3/21		Change	
	Results	% of net sales	Forecast	% of net sales		% change
Net sales	84,840		71,000		-13,840	-16.3%
Operating income	10,412	12.3%	7,500	10.6%	-2,912	-28.0%
Ordinary income	10,323	12.2%	7,500	10.6%	-2,823	-27.4%
Net income attributable to shareholders of parent company	6,732	7.9%	5,000	7.0%	-1,732	-25.7%

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

Growth strategy

A top niche strategy, of the expansion of the market as a whole leading to growth for the Company

The Company's growth strategy would seem to be to further improve management efficiency and its competitive advantages by specializing in asset management-type condominiums in the Tokyo metropolitan area (particularly in the city center), and also a top niche strategy, of the expansion of the market as a whole leading to its own growth. Looking at this from the opposite direction, we can see there is a growth bottleneck (constraint), in which growth is determined by market trends. Therefore, a key point for the Company itself, which leads its industry, would seem to be how it will promote the sound development of the asset management-type condominiums market. Including through partnerships with other companies, it is creating a database of prospective customers who have expressed an interest in its products (potential owners) and it is focusing its efforts into expanding the market base from a long-term perspective by aiming to increase awareness and understanding of asset management-type condominiums through various measures, including by regularly providing potential and actual customers with information by email and other means, and these content marketing operations are conducted through Gala Navi*1. In April 2016, it newly established its own seminar room, and every month it holds seminars on themes in accordance with the various needs of customers, from beginner investors through to owners, including in a seminar format and as individual consultation sessions. We will also be paying attention to the results of other activities, in which the Company actively promotes tie-up seminars (FJ College)*2 with influencers such as specialists in certain fields, financial institutions and companies offering services for asset management. Moreover, the Company is progressing measures to respond to new needs, including the establishment of a local subsidiary in Taiwan (October 2014), whose role is to quickly and accurately ascertain the needs of Taiwanese investors.

*1 The Company distributes content on asset management-type condominiums and a wide range of themes such as information on life plans, money, etc. (regularly providing content exclusively for members on the website and via the e-mail magazine), and it has more than 200,000 members.
*2 It has had more than 1,000 visitors. Many of these visitors were young investors aiming to form assets for the future.

In addition, while focusing on asset management-type condominiums, the Company is aiming to further expand the scope of its business and acquire earning opportunities, while its policy for its family-type condominiums business is to steadily accumulate a track record of results.

At FISCO, we judge that it is highly likely that the Company will achieve sustainable growth. This is because, despite the concerns about the external environment, including the effects the coronavirus pandemic and rising land-purchase prices and construction costs, the demand from residents and owners for asset management-type condominiums in the Tokyo metropolitan area is strong and there remains sufficient room for growth in the future. It is also because the Company is deploying a comparatively robust business model (such as a conservative purchasing policy and financial strength, and a focus on high-quality rental housing) and a stock business (for example, rental management operations and asset management operations, including for the properties of other companies).

Recently, there has been a trend for major developers to enter-into the asset management-type condominiums market, and this can be said to be evidence of the fact that this market is recognized to be attractive. Precisely because of the sense of uncertainty that prevails about economic conditions in the future, at FISCO we think it will be important for the Company to continue with activities that link its own growth to the development of the market as a whole through conducting sales with an eye to the future, such as utilizing content marketing (a membership base of around 200,000 people).

CSR and information security measures

Actively practicing CSR as the leading company

As the leading company representing its industry, the Company is actively conducting corporate social responsibility (CSR) activities and environmental measures. Specifically, it is adopting various environmentally friendly equipment, including LED lighting, environmentally friendly plywood (for example, sustainable timber supplied from forests with permission for afforestation from the government of the producing country), interior materials with low formaldehyde specifications to address sick building syndrome, air conditioners that are compliant with energy-saving standards (installed as standard), and water-saving toilets. It is also advancing the greening of the roofs of its condominiums as part of its measures to respond to the heat island effect.

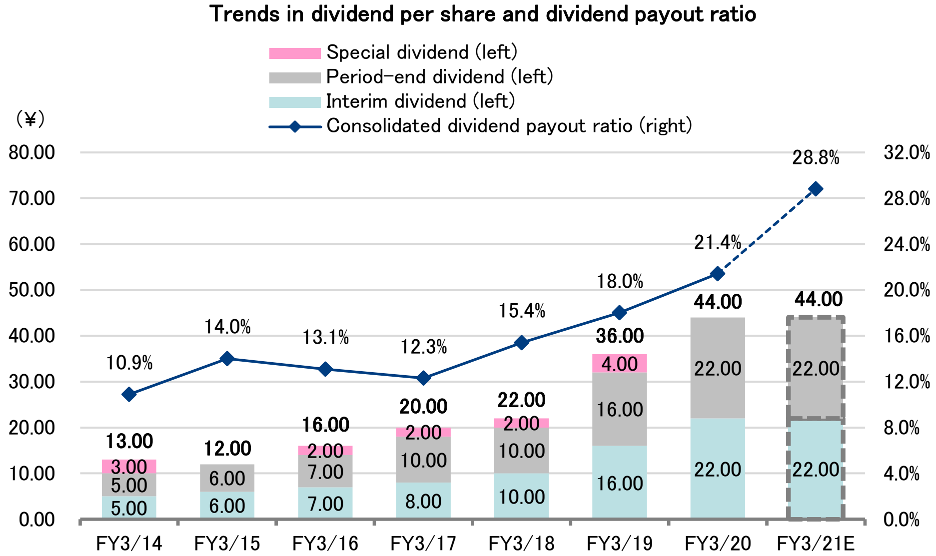
Moreover, the Company is participating in the "Fun to Share" activities to prevent global warming that are being promoted by the Ministry of the Environment, and it is conducting various in-Company eco-activities, including implementing Cool Biz and Warm Biz, converting office lighting to LED, effectively using vinyl umbrellas (sharing umbrellas that are not being used within the Company), and establishing an in-Company library (recycling of unwanted books and magazines as an in-Company library). In addition, it supports the environmental conservation activities being conducted in Akagi Nature Park (Shibukawa City, Gunma Prefecture), and through Green Site License it is planting trees in developing countries (in Africa and Asia).

On the other hand, the Company is implementing measures to strengthen information security, including the management of personal information, which is its greatest corporate social responsibility. In November 2006, it acquired the ISO/IEC 27001 certification, which is the international standard for information security management systems. In addition, it is working to build a strict management system through rotating the PDCA cycle.

Shareholder returns and share price valuation

Plans to greatly increase the dividend by growing profits and raising the dividend payout ratio

The Company's basic policy for returning income to shareholders is to "Stably and continuously pay dividends according to income after comprehensively considering various factors, including internal reserves for active business development and maintaining a financial balance." For the dividend from profits in FY3/20, it raised the dividend payout ratio to pay an annual dividend per share of ¥44 (interim ¥22, period-end ¥22, dividend payout ratio 21.4%), which was an increase of ¥12 YoY (on an ordinary dividend basis). For the FY3/21 dividend also, despite the forecast of a decline in profits, the Company plans to pay a dividend per share of ¥44 (interim ¥22, period-end ¥22, forecast dividend payout ratio, 28.8%), which is the same amount as in the previous fiscal year. Going forward, we can expect continuous dividends alongside the Company's income growth, based on the relatively stability of its business and its high level of income.



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

Also, as a measure for individual shareholders and to promote greater understanding of its Group's businesses, the Company has introduced a shareholder benefits program. In it, shareholders can select an item from a department store gift catalog with a value of ¥1,500, while long-term shareholders can select an item with a value of ¥5,000. It also provides shareholders with vouchers that can be used at four hot spring Japanese inns managed by the Company's Group.

Looking at how the share price has trended recently, due to the strong results and expectations for growth in the future, it rose to its highest value of ¥1,255 on January 29, 2020. But on entering February of the same year, the stock market as a whole slumped greatly due to the impact of the coronavirus pandemic, and the Company's share price has been trending at a low level alongside this. The current share price (closing price on June 30, 2020: ¥858 per share) is firming up with PER (forecast) remaining at 5.61 times and PBR (actual) at 0.56 times, while the dividend yield (forecast) has reached 5.13%. It is not possible to conduct a simple comparative analysis, as there are no similar listed companies with the same growth model. But starting with the fact that the TSE 1st Section average PER (forecast) is 22.02 times and the PBR (actual) is 1.20 times, and also in consideration of various factors, such as the strong demand for asset management-type condominiums in the Tokyo metropolitan area, future development potential, and the Company's comparatively robust business model, there is the sense that its current share price level is still undervalued. Therefore, as its industry's leading company, it is considered that there is plenty of room for its share price to rise from asset management-type condominiums becoming further recognized as a long-term investment product. In particular, in the coronavirus pandemic, the stability (the asset value) of rental housing in the Tokyo metropolitan area is being re-evaluated, so it would seem necessary to pay attention to whether this will cause the Company's share price to rise. In August 2017, it was selected to be a constituent issue in the JPX-Nikkei Mid and Small Cap Index*.

* A stock price index compiled by Tokyo Stock Exchange, Inc., and NIKKEI Inc. This index applies the concept of the JPX-Nikkei Index 400, which is an index comprised of highly attractive listed companies, to mid and small cap equities by selecting companies that focus on capital efficiency and investor-oriented management, and it aims to foster greater awareness of such issues among corporate executives. It is comprised of 200 issues selected from the main markets of the TSE 1st Section, 2nd Section, Mothers, and JASDAQ.

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