COMPANY RESEARCH AND ANALYSIS REPORT

INTELLEX Co., Ltd.

8940

Tokyo Stock Exchange First Section

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Index

Summary

Announced ECOCUBE, the industry's first energy-saving renovation product, and is working to capture market share in the metropolitan Tokyo area

INTELLEX Co., Ltd. <8940> (hereafter, also "the Company") is its industry's pioneer and largest company, conducting a renovated condominiums business of renovating and selling used condominiums. Also, as new businesses, in FY5/16 it launched the Asset Sharing Business (sales of small-lot real estate) and in FY5/17 it launched the Leaseback Business. In addition, in 2019 its subsidiary started to operate FLIE, which is a platform for owners to directly sell used real estate.

1. Outline of results for FY5/21

In the FY5/21 consolidated results, sales and profits increased, with net sales rising 8.5% year-on-year (YoY) to ¥41,074mn and operating profit growing 95.8% to ¥2,170mn. In the mainstay Renovated Condominium Business, net sales were solid, increasing 2.3% to ¥31,466mn, while in the Other Real Estate Business, net sales grew 35.4% to ¥9,607mn through the recording of leaseback property sales revenue of ¥2.9bn (includes the transfer of trust beneficiary rights of ¥1,941mn) and revenue of ¥2.6bn from the sale of a property in Roppongi, Minato Ward. The profit-increase factors were the improved profitability of the Renovated Condominium Business, and also the sales of a highly profitable real estate properties. The number of renovated condominiums sold increased 6.3% YoY to 1,420 units, rising for the second consecutive period. But in a situation in which there are few properties for sale, the number of purchases declined for the first time in 3 periods, down 17.4% to 1,181 units.

2. Outlook for FY5/22

The outlook for the FY5/22 consolidated results is that net sales will increase 5.3% YoY to ¥43,234mn and operating profit will decrease 40.9% to ¥1,283mn. In the Renovated Condominium Business, net sales will remain at the same level YoY, but in the Other Real Estate Business, sales are forecast to increase from the growth of property sales revenue, centered on leaseback properties, and of the Renovation Business. Conversely, in profits, the profit-decrease factors will be that there will be no sales of highly profitable real estate, and that personnel expenses will increase and upfront investment costs for new products and new businesses will also rise.

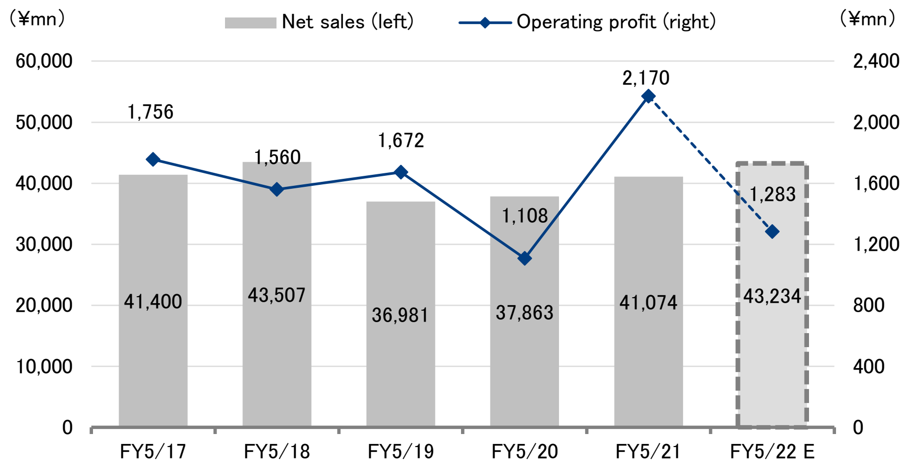
3. Priority measures

The Company has recently newly formulated its Group's MISSION, VISION, and VALUE, and based on these ideas, it has set the business policy of contributing to solving social issues through renovation. Based on the two business pillars of a renovation business that provides a choice for a new way of living through renovated houses and a solutions business that provides solutions to utilize and manage real estate as assets (asset, leaseback, and asset sharing), its strategy is to grow while utilizing its expertise in IT x finance (financial strategy and portfolio strategy) for these businesses. In a situation in which competitors are increasing, as a new differentiation strategy for the renovation business, in July 2021 the Company announced and launched sales of ECOCUBE, the industry's first energy-saving renovation product. This product is kind to the environment, significantly keeping down heating and cooling costs (thereby reducing CO_2 emissions) through increasing heat insulation and airtightness and adopting a highly efficient ventilation system. Its sales price is approximately 10% higher than that of conventional products, but it seems that demand is still expected on considering various factors, including that government subsidies can be utilized and that it can keep down annual heating and cooling costs. In addition, the Company has newly established the Direct Retail Department and has started measures for purchases and sales that do not require brokerage fees. It will promote these new measures in FY5/22, which will be a preparation period leading to growth from FY5/23 onwards. In the last few years, results growth has been sluggish due to the intensification of competition in the metropolitan Tokyo area, but the Company is expected to once again enter a stage of earnings growth from FY5/23, when the effects of these strategies are likely to be realized.

Key Points

- In FY5/21, sales and profits increased through higher sales of renovated condominiums and other real estate
- Has positioned FY5/22 as a preparation period toward growth
- Launched sales of the ECOCUBE energy-saving renovation product and is aiming to grow earnings by contributing to solving social issues through renovation

Results trends



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

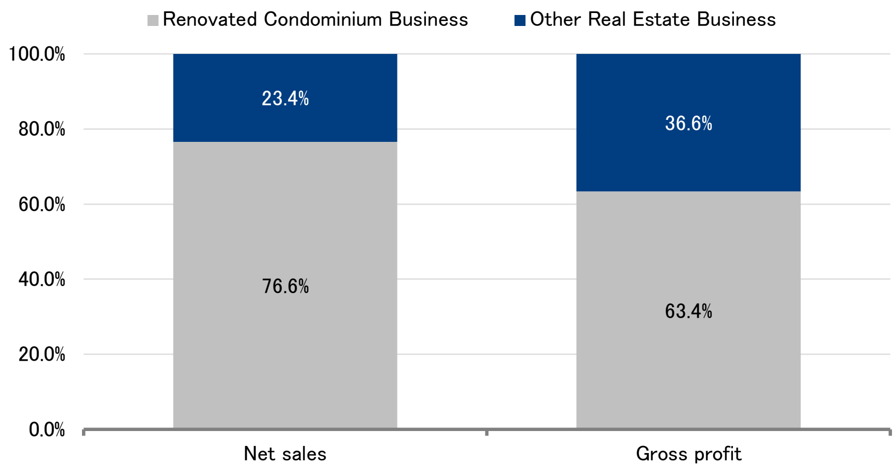
Business Summary

On the main axis of the Renovated Condominium Business, is diversifying the earnings portfolio, including by launching the Asset Sharing Business and the Leaseback Business

1. Descriptions of business segments

The Company's main pillar of earnings is the Renovated Condominium Business, in which it individually purchases used condominiums and then re-sells them after renovating them. Its business segments are the Renovated Condominium Business and the Other Real Estate Business, and looking at the percentages of results by business in FY5/21, the Renovated Condominium Business provided 76.6% of net sales and 63.4% of gross profit and is the main business.

Percentages of results by business segment (FY5/21)



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

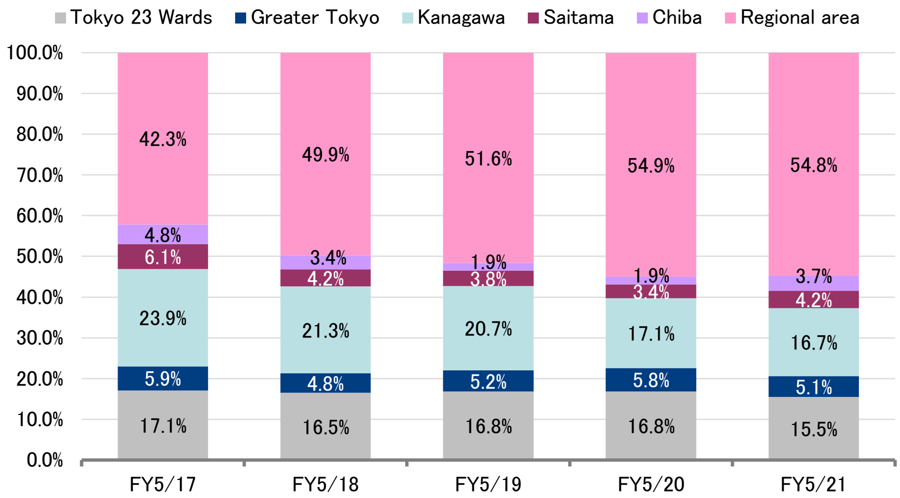
(1) Renovated Condominium Business

The Renovated Condominium Business includes rents from owned condominiums and other income (real estate brokerage fees, etc.), in addition to sales of renovated condominiums. But sales of renovated condominiums provide more than 99% of this segment's net sales.

In terms of the sequence of events in this business, for the properties purchased based on information acquired from real estate brokerage companies, the subsidiary INTELLEX Space Plan Co., Ltd., creates the optimal renovation plan and conducts the renovation work, after which the property is sold, including via real estate brokerage companies (it has also recently started direct purchases and sales). The Company emphasizes as a management indicator the project period from the purchase to the sale of the property, targeting around 120 days. If the period is longer than this, its basic policy is to adjust the sales price and complete the sale at an early stage. This is because if the stock retention period becomes longer, the risk of profitability declining increases. It conducts business management setting a gross profit margin of 12% to 13% as the appropriate level. Also, for sales, in order to ascertain market trends, some properties are sold through the subsidiary INTELLEX Housing Co., Ltd., and renovation work is outsourced to partner companies.

The Company's sales areas started from the metropolitan Tokyo area, and since 2013 it has gradually entered-into the major regional cities (Sapporo, Sendai, Nagoya, Kyoto, Osaka, Hiroshima, and Fukuoka). In the metropolitan Tokyo area, the number of participating companies is increasing, including major real estate sales companies, and competition is intensifying. But in the regions, there are still only a few companies involved in renovating condominiums, so this market is steadily being developed and in FY5/21, it constituted more than half of the percentage of units sold at 54.8%. As of 2020, the Company's number of condominium stocks nationwide was 6,750,000 units, of which around half were in the metropolitan Tokyo area, so a sales ratio in which both the metropolitan Tokyo area and the regions provide around half of sales is considered to be an appropriate level.

Percentages of units sold by area



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

(2) Other Real Estate Business

The Other Real Estate Business involves sales of real estate including newly built condominiums, office buildings, commercial buildings, and development land. It also includes rents from these real estate holdings, and income from hotel management and consignment renovation work*, and real estate brokerage fees. This business segment includes the Asset Sharing Business launched in April 2015, and the Leaseback Business launched in 2017.

* Consignments of renovation work from other companies in the industry selling renovated condominiums and also from general individuals. For each individual property, expertise in condominium renovation work is necessary, so the Company receives many inquiries from other companies in the industry, including major real estate sales companies

a) Asset Sharing Business

The Asset Sharing Business refers to a business of selling real estate small-lot products through utilizing the “voluntary partnership-type” scheme in the Act on Specified Joint Real Estate Ventures. The features of these products include that they enable high-quality real estate properties, both newly built and used, to be acquired through joint ownership on units of ¥1mn per lot, that the risk of vacancies and non-payment of rent can be dispersed through joint ownership, that they can be expected to stably generate earnings, and that the asset value can be significantly kept down as an inheritance or gifted asset.

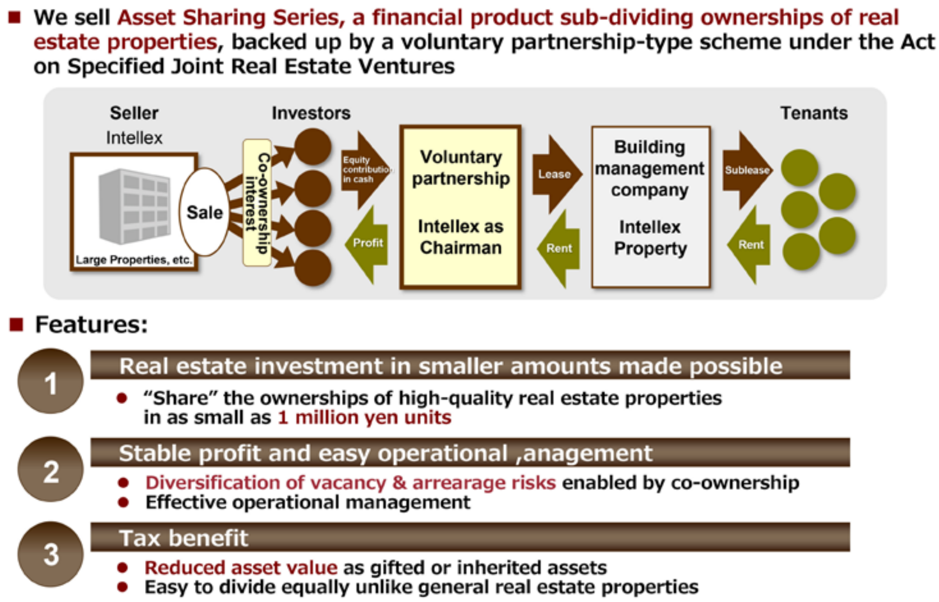
In particularly, they are attracting attention as products that are highly convenient as a measure for inheritance or gifted assets. Specifically, as the products are actual real estate divided into small lots, depending on the conditions of the inheritor, the asset to be inherited can be flexibly divided into lots and a gap created between the price of the real estate and the valuation amount for inheritance tax. Therefore, they make it possible to keep down inheritance assets by recombining cash into actual real estate, to accumulate real estate income as tax-payment income, and to divide and sell only that portion needed for the tax payment.

The real estate property management is mainly carried out by the subsidiary INTELLEX Property Co., Ltd. The Group as a whole can acquire flow income from small-lot sales and also stock (recurring) income from voluntary partnership chairperson fees and property management fees. Conversely, as investors’ expected rate of return, its policy is to compose products targeting an expected distribution yield of at least 3%*.

> * Annual income from deducting actual costs generated (administrative expenses, etc.) from rental income ÷ investment amount

This business includes other companies that launched a business ahead of the Company, including Aoyama Zaisan Networks Co., Ltd. <8929> and Financial Products Group Co., Ltd. <7148>. But the Company’s strengths include that it can utilize the network and expertise it has constructed up to the present time as a real estate company, and that it can develop a wide range of products, of both newly built and used properties and from residential-use through to commercial-use. In terms of sales, it conducts sales by approaching investors through various sales channels, including by holding seminars, its own website, and via professionals such as tax accountants and financial institutions and other organizations.

Framework of the Asset Sharing Business (sales of real estate small-lot products)

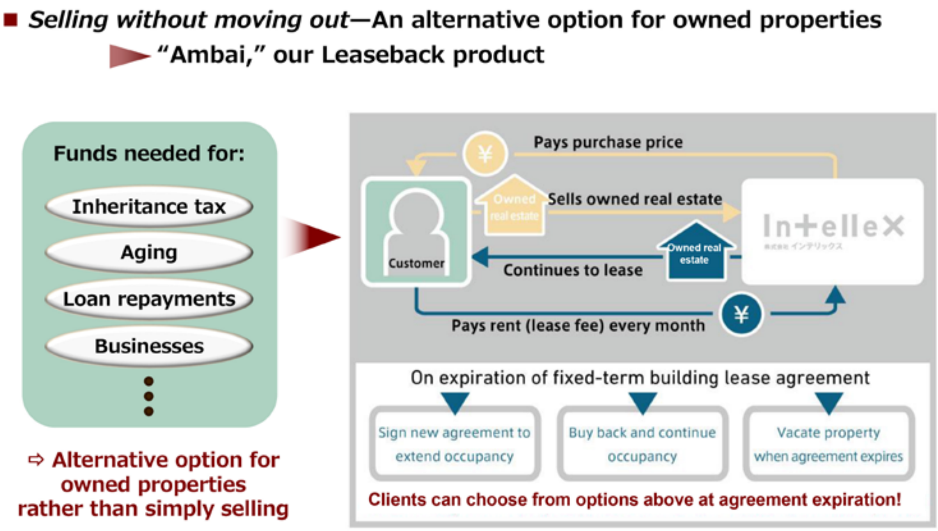


Source: The Company's results briefing materials

b) Leaseback Business

The Leaseback Business is a service in which the Company purchases owned real estate from the users, and at the same, it newly concludes with them a fixed-period property rental contract (2 years) and collects rent. In the contract, users approaching the end of their contract period can choose whether to re-sign and continue to live in the home, to leave it, or to purchase the owned real estate. In the event that a home owner requires funds, such as for inheritance tax, retirement, or to repay a loan, this service makes it possible for them to sell the property they own and continue to live in it, and its market has grown in the last few years.

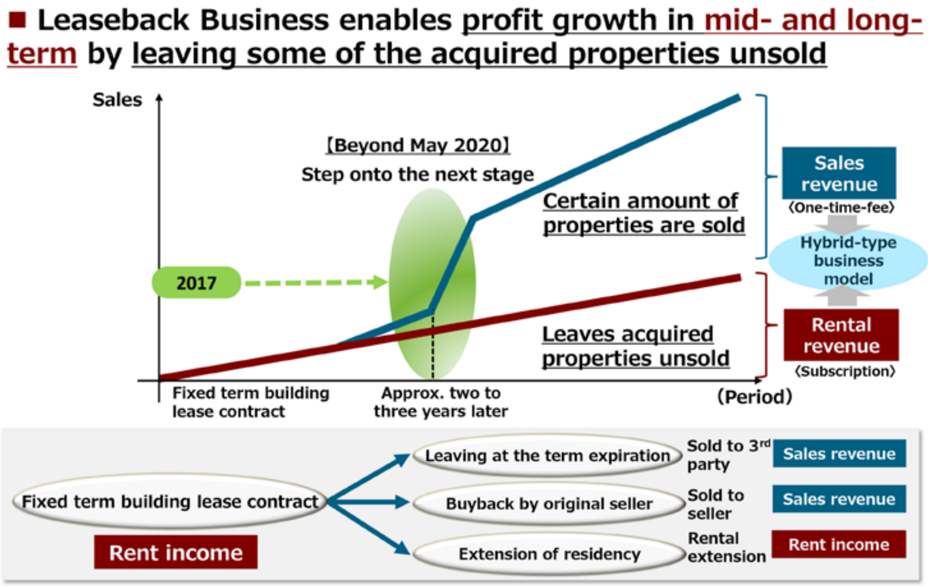
Framework of the Leaseback Business



Source: The Company's results briefing materials

Net sales are recorded as contract fees at the time a property is acquired and rental income, and also as sales income when a property is sold. Conversely, costs include acquisition tax and registration costs at the time a property is acquired, and also the recording of depreciations costs. Therefore, a feature of the business model is that costs are incurred for a fixed period in advance of the property acquisition, but that at the time the property is sold, the profit margin becomes higher due to the progress of depreciation. Rent is obtained regularly (annual yield of 6% to 7%), so stock-type earnings accumulate through the increase in the number of purchases, while flow-type earnings are acquired at the time of a sale.

Promoting the Profitability of the Leaseback Business



Source: The Company's results briefing materials

For the Leaseback Business, HOUSE DO Co., Ltd. <3457> was a pioneer in the industry in launching a service in 2013, and currently the number of participating companies, including finance companies, is increasing. However, the Company's strategy is to grow this business by expanding purchase and sales routes, while also strengthening partnerships with major real estate companies (including CENTURY 21 REAL ESTATE OF JAPAN LTD. <8898>).

Strengths including a system for rapid purchases and renovation expertise it has developed independently

2. The Company's strengths

In the Renovated Condominium Business, the Company's first strength is that it is building a system to rapidly purchase excellent properties that can be expected to be profitable. With regards to the information on properties for sale obtained from real estate brokerage companies, the Company's responsible person confirms conditions on site 1 or 2 days after receiving the information and makes a decision on the final purchase. In the case of major real estate companies, it is said that the purchase decision normally takes around 1 week, so in the event of receiving the information on the property for sale on the same timing, the Company is able to acquire excellent properties in advance of its industry peers. However, in the last few years in the metropolitan Tokyo area, an increasing number of companies have been participating in the used condominiums market, including major developers, so compared to previously, it has become more difficult to purchase excellent properties at appropriate prices.

The Company's second strength is its renovation expertise that it has independently developed for renovations of individual condominiums. Compared to detached houses, renovations of individual condominiums require consideration for the adjacent condominiums, so the renovation must be conducted in a short period with measures to minimize noise and vibrations. As its methods to address such problems that are based on its experience of renovating many properties up to the present time, the Company has established renovation methods specifically for condominiums. It conducts quiet renovation to minimize noise when drilling holes and screwing screws, while it also has systemized infrastructure and underground equipment, including adopting header pipes that collect into one place the water supply and hot water supply. In such ways, it employs condominium renovation methods only it is capable of, to homogenize the quality of the renovation, at the same time as improving work efficiency and also improving the efficiency of subsequent maintenance. Moreover, in the case of condominiums, the living infrastructure is shared, such as the electrical wiring, water supply, and gas pipes, so it is necessary to pay full attention to handling these shared elements when conducting construction work. The Company has prepared a renovation manual for condominium renovations, and it works to maintain and improve the quality of the services of its partner companies that carry out the renovation. Its renovation technologies have been highly evaluated within the industry and it receives many renovation consignment projects compared to its industry peers.

Condominium renovation methods

Quiet renovation

Header pipes

Source: reprinted from the Company's website

Results trends

In FY5/21, sales and profits increased through higher sales of renovated condominiums and other real estate

1. Outline of results for FY5/21

In the FY5/21 consolidated results, net sales increased 8.5% YoY to ¥41,074mn, operating profit rose 95.8% to ¥2,170mn, ordinary profit grew 154.3% to ¥1,926mn, and profit attributable to owners of parent increased 116.0% to ¥1,127mn. Net sales increased for the second consecutive period, while every profit item increased for the first time in two periods.

Consolidated results for FY5/21

(¥mn)

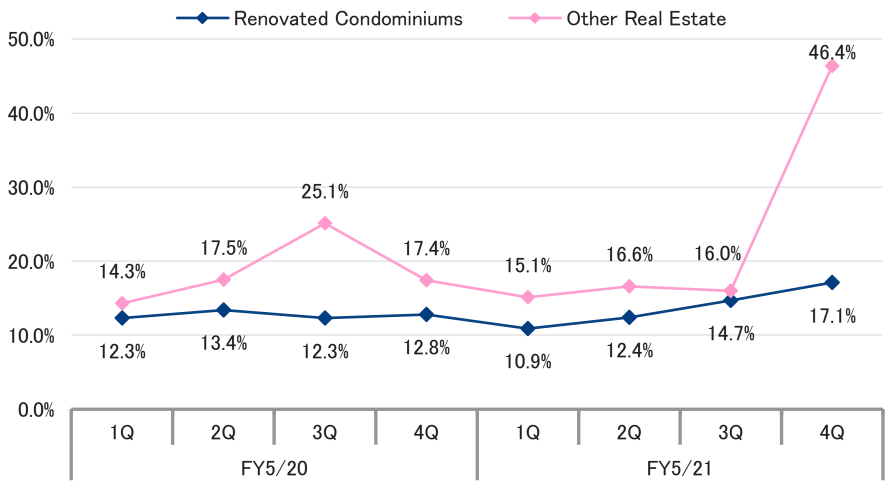
	FY5/20		FY5/21				
	Results	% of sales	Company forecast*	Results	% of sales	YoY	vs. forecast
Net sales	37,863	-	40,187	41,074	-	8.5%	2.2%
Gross profit	5,557	14.7%	6,791	6,991	17.0%	25.8%	2.9%
SG&A expenses	4,448	11.7%	4,718	4,820	11.7%	8.4%	2.1%
Operating profit	1,108	2.9%	2,073	2,170	5.3%	95.8%	4.7%
Ordinary profit	757	2.0%	1,806	1,926	4.7%	154.3%	6.6%
Extraordinary profit/loss	5	-	-	-2	-	-	-
Profit attributable to owners of parent	522	1.4%	1,146	1,127	2.7%	116.0%	-1.7%
Renovated condominium sales							
No. of sales (units)	1,336	-	1,386	1,420	-	6.3%	2.5%
Sales amount (¥mn)	30,570	80.7%	30,400	31,299	76.2%	2.4%	3.0%

* The Company forecasts are the values announced in April 2021.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Net sales decreased in the Renovation Business and the Hotel & Accommodation Business due to the impact of the novel coronavirus pandemic (hereafter, COVID-19). Conversely, the number of sales of the mainstay renovated condominiums increased 6.3% YoY to 1,420 units and grew 2.4% to ¥31,299mn on a monetary basis. Also, the sales-increase factors included that in the Leaseback Business, revenue from property sales, including from the transfer of real estate trust beneficiary rights, of approximately ¥2.9bn was recorded, and that progress was made in property sales in the Other Real Estate Business.

The gross profit margin rose from 14.7% in the previous period to 17.0%. Earnings deteriorated in the Hotel & Accommodation Business due to the prolonged slump in occupancy rates. But the main factors causing the profit margin to rise were that the profit margin for sales of renovated condominium rose from 12.7% in the previous period to 13.7% and also a gain of ¥2.6bn was recorded following the sale of a real estate property in Roppongi, Minato Ward. As this property was acquired including with adjacent land, its floor area ratio was high and it is estimated that its value had increased greatly from the time the property was acquired.

Gross profit margin of units sold



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

SG&A expenses as a whole increased 8.4% YoY, because although personnel expenses and sales brokerage fees increased, others expenses were kept down, and the SG&A expenses ratio was unchanged YoY at 11.7%. Also, non-operating income/expenditure improved ¥106mn YoY, including due to the improved financial balance. At the end of May 2021, the number of full-time employees on a consolidated basis had risen by 7 YoY to 325 employees, due to the progress made in strengthening the sales structure.

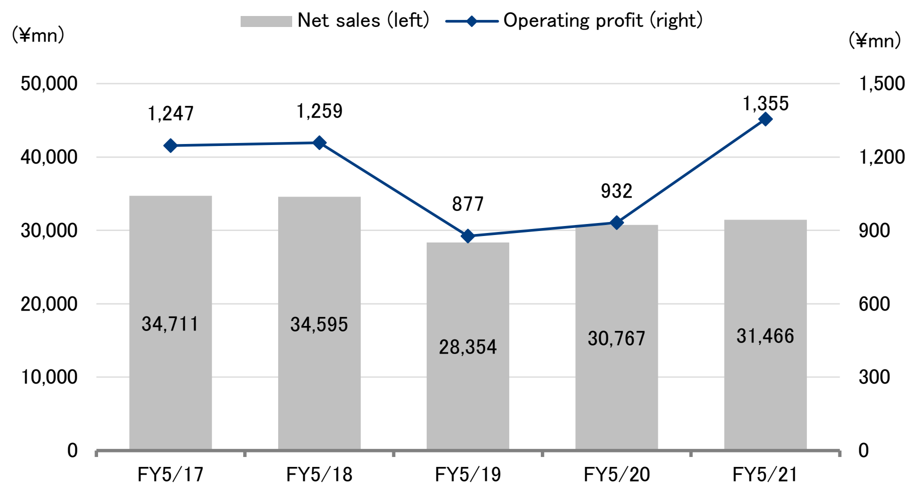
In renovated condominiums, the number of purchases decreased but the number of sales increased, and in the Leaseback Business, a gain on the sale of trust beneficiary rights was recorded.

2. Trends by business segment

(1) Renovated Condominium Business

In the Renovated Condominium Business, net sales increased 2.3% YoY to ¥31,466mn and operating profit rose 45.4% to ¥1,355mn. Looking at the breakdown of net sales, sales of renovated condominiums increased 2.4% to ¥31,299mn, while other income (real estate brokerage fees) rose 34.9% to ¥24mn. However, following the sale of an owner-change property, the number of units owned declined, and alongside this, rents decreased 20.1% to ¥142mn.

Renovated Condominium Business



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

The number of renovated condominiums sold increased for the second consecutive period, rising 6.3% YoY to 1,420 units, while the average sales price decreased 3.7% to ¥22,040,000. The number of units sold by area increased 6.6% to 642 units in the metropolitan Tokyo area and rose 6.0% to 778 units in the regional area (the major cities outside Tokyo), setting a new record high in the regional area for the second consecutive period. The number of newly built condominiums supplied is decreasing, and in this situation, demand for used condominiums is trending strongly, leading to the increase in the number of units sold. Sales increased significantly at regional stores, particularly the Osaka branch, increasing 18.3% YoY to 246 units, and at the Fukuoka branch, rising 24.5% to 137 units, setting new record highs. It seems that these bases are succeeding by strengthening their sales structures through mid-career hires.

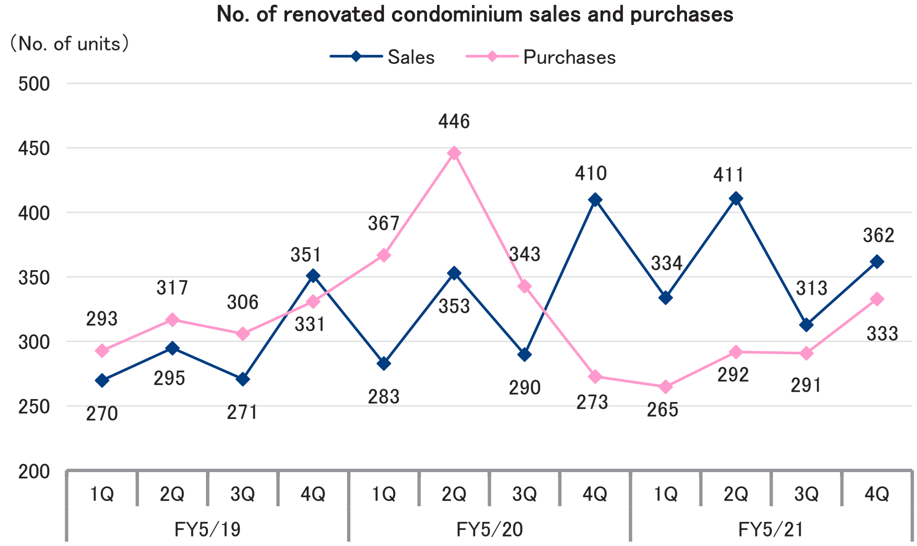
Number of units purchased and sold by area, the total amount, and the average price

(¥mn)

	No. of purchases				No. of sales			
	FY5/19	FY5/20	FY5/21	YoY	FY5/19	FY5/20	FY5/21	YoY
Metropolitan Tokyo area	579	599	483	-19.4%	575	602	642	6.6%
Tokyo 23 Wards	190	250	166	-33.6%	200	225	220	-2.2%
Greater Tokyo	64	68	63	-7.4%	62	77	72	-6.5%
Kanagawa	237	216	194	-10.2%	246	228	237	3.9%
Saitama	64	47	41	-12.8%	45	46	60	30.4%
Chiba	24	18	19	5.6%	22	26	53	103.8%
Regional area	668	830	698	-15.9%	612	734	778	6.0%
Sapporo	118	150	117	-22.0%	120	132	141	6.8%
Sendai	85	82	79	-3.7%	80	85	83	-2.4%
Nagoya	158	169	185	9.5%	148	163	135	-17.2%
Osaka	191	255	177	-30.6%	169	208	246	18.3%
Hiroshima	31	35	33	-5.7%	17	36	36	0.0%
Fukuoka	85	139	107	-23.0%	78	110	137	24.5%
Total	1,247	1,429	1,181	-17.4%	1,187	1,336	1,420	6.3%
Total amount	19,148	21,388	16,105	-24.7%	28,160	30,570	31,299	2.4%
Average price	1,536	1,497	1,364	-8.9%	2,372	2,288	2,204	-3.7%

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

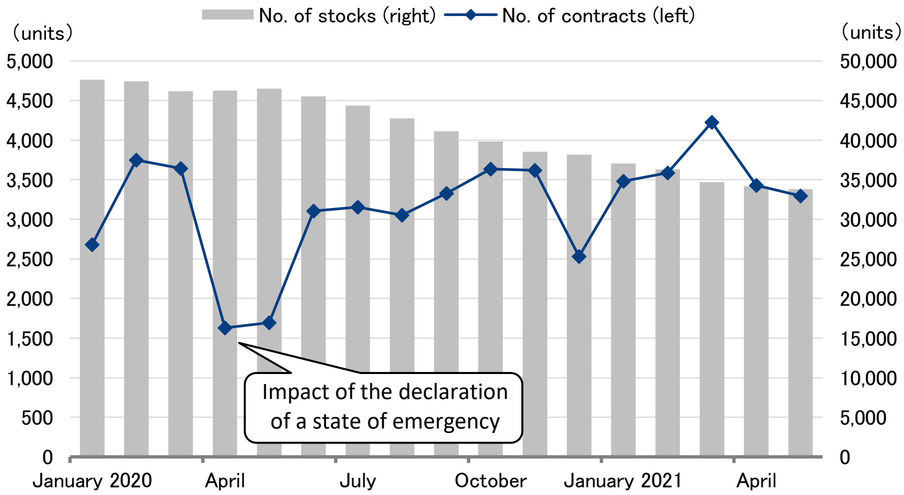
No. of renovated condominium sales and purchases



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

On the other hand, the number of units purchased declined by 17.4% YoY to 1,181 units, of which, it declined 19.4% to 483 units in the metropolitan Tokyo area and fell 15.9% to 698 units in the regional area, so it decreased by double digits in both areas. This was the first decline in two periods in the metropolitan Tokyo area and in three periods in the regional area. It appears that the factors behind this were that due to COVID-19, the movement of people has stagnated and that in the industry as a whole, used condominium properties for sale are decreasing. In fact, on looking only at the industry trend for used condominiums in the metropolitan Tokyo area in the same period, the number of contracts recovered and increased by 15.4% compared to the same period in the previous fiscal year to 40,453 units, even in a situation in which the number of newly built condominiums supplied decreased. But conversely, at the end of May 2021, the number of stocks had decreased greatly, down 27.3% to 33,801 units, and it would seem that in the distribution market, the number of properties that can be bought and sold has decreased. That said, looking at the Company's number of purchases on a fiscal quarterly basis, it bottomed-out in the 1Q at 265 units and then trended upward, reaching 333 units by the 4Q. The main factor behind this is thought to be the progress made in strengthening the sales structure, including that in October 2020 in the metropolitan Tokyo area, the Company opened its third sales base (Tokyo Nihonbashi branch) following on from the bases in Shibuya and Yokohama. The Tokyo Nihonbashi branch will mainly cover the eastern area of Tokyo and Chiba Prefecture, and it is working on strengthening purchases.

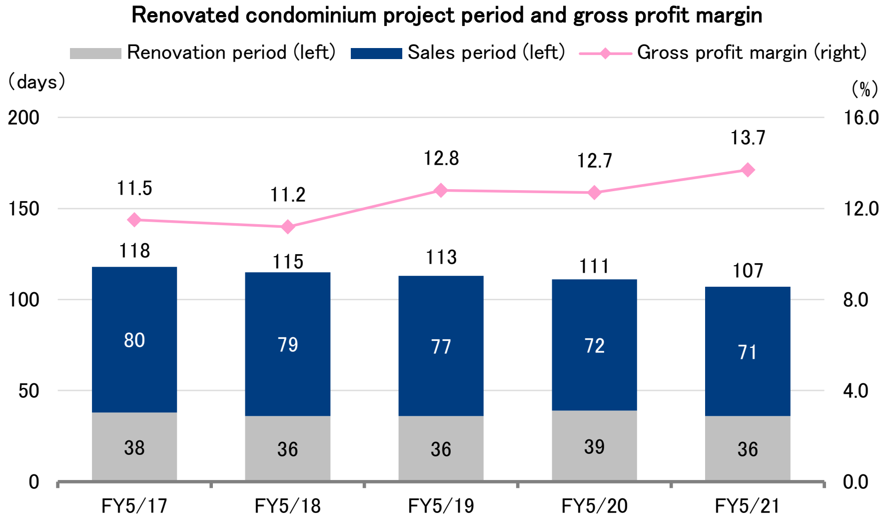
The number of used condominium contracts and the number of stocks in the metropolitan Tokyo area



Source: prepared by FISCO from Real Estate Information Network System data

As previously stated, the gross profit margin of renovated condominium sales rose from 12.7% in the previous period to 13.7% and gross profit increased 10.6% to ¥4,303mn. In the 1Q due to the impact of COVID-19, the Company conducted some discounted sales, so the gross profit margin declined to as low as 10.9%. But from the 2Q onwards, it made steady progress in sales alongside the improvement to the demand-supply balance, so the profit margin recovered and rose to a record-high level for the last few years of 17.1% in 4Q. The full fiscal year project period was shortened from 111 days in the previous period to 107 days. The sales period was shorted by 1 day and the renovation period by 3 days, respectively.

Results trends



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

(2) Other Real Estate Business

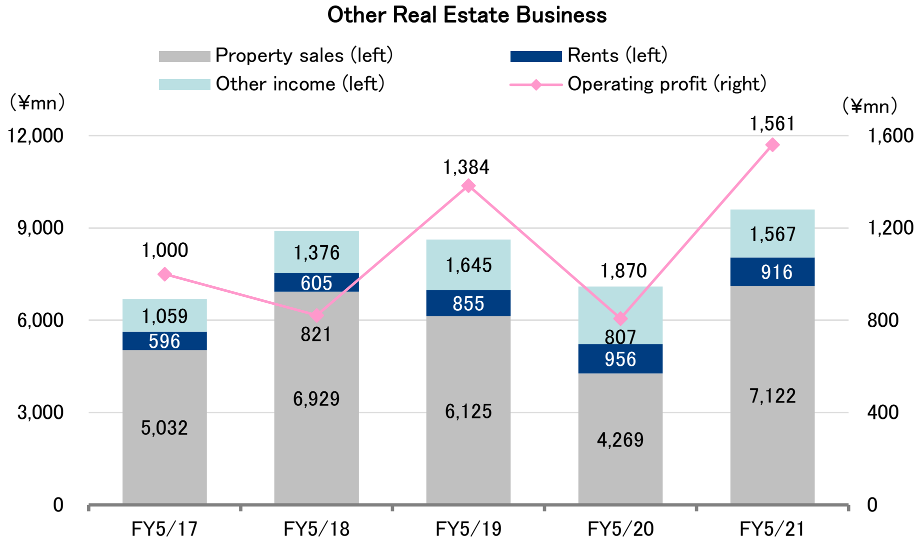
In the Other Real Estate Business, net sales increased 35.4% YoY to ¥9,607mn and operating profit rose 93.3% to ¥1,561mn. Looking at the breakdown of net sales, property sales increased 66.8% to ¥7,122mn, rents declined 4.2% to ¥916mn, and other income decreased 16.2% to ¥1,567mn. So the main factor behind the increases in sales and profits was the significant growth of property sales.

For property sales, in the Asset Sharing Business they decreased from ¥700mn in the previous period to ¥500mn. But the increase factors were that in the Leaseback Business, they increased from ¥600mn to ¥2.9bn (of which, ¥1.9bn from the transfer of real estate trust beneficiary rights*), and also that a gain on the sale of a property in Roppongi, Minato Ward, of ¥2.6bn was recorded. At the end of the period, the number of leaseback properties owned had decreased by 1 unit on the end of the previous period to 387 units, and the total value of properties owned had declined by ¥800mn to ¥5.3bn.

* In September 2020, the Company transferred the trust beneficiary rights of 68 leaseback properties to LLC Ambai LB No.1 (transfer price ¥1,941mn, book price ¥1,632mn) and made them off-balance.

In rents, income from leaseback properties was ¥400mn, which is the same level as in the previous period, while sales of other properties were a factor causing rents to decline. Also, in other income, in the Renovation Business, it declined 9.2% YoY to ¥1,307mn due to the impact of the slump in the previous period's 1H. But if looking only at the 2H, orders for corporations and individuals both recovered and it increased, up 5.1% YoY to ¥728mn. In addition to the growth in demand for renovated condominiums, it seems that the increase in opportunities to work at home due to COVID-19 was a factor behind the recovery of orders. Conversely, in the Hotel & Accommodation Business, the slump in occupancy rates during the COVID-19 pandemic became prolonged at hotels such as LANDABOUT TOKYO (Taito Ward, Tokyo), which opened in January 2020, and also at montan HAKATA and Kyo Machiya, and this was a factor keeping down earnings.

In profits, declines, including in the Hotel & Accommodation Business and the Renovation Business, were covered by the effect of the increase in property sales. Among these sales, the sale of a property in Roppongi, Minato Ward, contributed significantly.



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

Total assets declined due to the decrease in renovated condominium stocks, and the financial position improved

3. Financial conditions and management indicators

At the end of FY5/21, total assets had declined ¥2,300mn on the end of the previous period to ¥36,296mn. Looking at the main change factors, in current assets, cash and deposits increased ¥1,267mn, but inventories decreased ¥9,275mn. In inventories, inventory stocks declined because of the increase in sales and the decline in purchases of renovated condominium. Also, LANDABOUT, which is scheduled to be an asset-sharing product, has been transferred to non-current assets as there are no plans for its sales at the current time, and this was also an inventory-decrease factor. It appears current assets declined significantly including because of the transfer of leaseback property trust beneficiary rights.

Conversely, in non-current assets, long-term earning property increased ¥4.9bn on the end of the previous period to ¥13.5bn. The increase factors included the transfer of LANDABOUT from inventories and the acquisition of the targeted property montan HAKATA following the redemption of Asset Sharing Hakata, a real estate small-lot product.

Total liabilities decreased ¥3,251mn on the end of the previous period to ¥24,709mn. While income taxes payable, etc., increased ¥672mn, interest-bearing debt decreased ¥4,174mn due to the sales of inventories. Also, total net assets increased ¥950mn on the end of the previous period to ¥11,586mn, as although expenditure on dividends was ¥187mn, the recording of profit attributable to owners of parent ¥1,127mn was an increase factor.

Looking at the management indicators, progress was made in improving the financial position, including that due to the decrease in the balance of interest-bearing debt, the capital ratio rose from 27.5% at the end of the previous period to 31.9%, and the interest-bearing debt ratio declined significantly from 234.9% to 179.2%. However, these improvements were due to the reduction in purchases of renovation condominiums, meaning that inventories held for sales in the future are decreasing. The Company is working to strengthen its purchasing system, so in this situation, it is fully possible that interest-bearing debt will increase once again in FY5/22. Going forward, it has set the policy of optimizing capital efficiency while growing its businesses, so it is working on diversifying its fund raising, such as borrowing from banks but also by utilizing cloud funding. On the other hand, looking at the indicators of profitability, each of ROA, ROE, and the operating profit margin rose compared to the previous period. While the main factor behind this was the sale of a highly profitable real estate property in the previous period, going forward also, the Company intends to work to improve asset efficiency, including by optimizing the earnings portfolio, so not only ROE, but also ROA is expected to improve.

Consolidated balance sheet

(¥mn)

	FY5/18	FY5/19	FY5/20	FY5/21	Increase/ Decrease
Current Assets	23,837	25,101	28,327	20,559	-7,767
(Cash and Deposits)	5,846	5,500	4,947	6,215	1,267
(Inventories)	17,333	18,648	22,918	13,642	-9,275
Non-current Assets	8,159	11,654	10,269	15,736	5,467
Total Assets	31,997	36,756	38,596	36,296	-2,300
Current Liabilities	12,332	14,863	17,698	15,610	-2,087
Non-current Liabilities	9,526	11,229	10,262	9,098	-1,163
Total Liabilities	21,859	26,093	27,961	24,709	-3,251
(Interest-bearing Liabilities)	19,645	23,879	24,924	20,750	-4,174
Shareholders' equity	10,104	10,633	10,609	11,578	968
Total Net Assets	10,138	10,663	10,635	11,586	950
(Security)					
Capital Ratio	31.6%	29.0%	27.5%	31.9%	4.4pt
Interest-bearing Debt Ratio	194.1%	224.3%	234.9%	179.2%	-55.7pt
(Profitability)					
ROA (Return on Assets)	3.7%	4.0%	2.0%	5.1%	3.1pt
ROE (Return on Equity)	8.2%	8.0%	4.9%	10.2%	5.3pt
Operating Margin	3.6%	4.5%	2.9%	5.3%	2.4pt

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

Outlook

Has positioned FY5/22 as a preparation period for growth

1. Outlook for FY5/22

The outlook for the FY5/22 consolidated results is for sales to increase but profits to decrease, with net sales to increase 5.3% YoY to ¥43,234mn, operating profit to decrease 40.9% to ¥1,283mn, ordinary profit to decline 47.9% to ¥1,004mn, and profit attributable to owners of parent to fall 38.9% to ¥689mn. Sales will continue to increase, including from sales in the Leaseback Business and of single buildings. But the factors behind the decline in profits will be the end of the gain on the sale of the Roppongi property that contributed significantly in the previous period, and that SG&A expenses, mainly personnel expenses and upfront investment costs in new businesses, are forecast to increase 9.3% YoY. Personnel expenses will increase ¥140mn YoY (scheduled number of recruits, 46 people), while upfront investment costs in new businesses and new products will increase ¥280mn.

Outlook for FY5/22

(¥mn)

	FY5/21 (result)		FY5/22 (forecast)				
	Full fiscal year	% of sales	1H	2H	Full fiscal year	% of sales	YoY
Net sales	41,074	-	19,350	23,884	43,234	-	5.3%
Gross profit	6,991	17.0%	2,978	3,575	6,553	15.2%	-6.3%
SG&A expenses	4,820	11.7%	2,561	2,709	5,269	12.2%	9.3%
Operating profit	2,170	5.3%	417	866	1,283	3.0%	-40.9%
Ordinary profit	1,926	4.7%	274	729	1,004	2.3%	-47.9%
Extraordinary profit/loss	-2	-	0	0	0	0.0%	-100.0%
Profit attributable to owners of parent	1,127	2.7%	180	508	689	1.6%	-38.9%
Earnings per share (EPS) (¥)	131.88	-	21.09	59.3	80.39	-	-

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

Sales outlook by business

(¥mn)

	FY5/21 (result)		FY5/22 (forecast)				
	Full fiscal year	% of sales	1H	2H	Full fiscal year	% of sales	YoY
Renovated Condominiums	31,299	76.2%	15,011	16,269	31,280	72.4%	-0.1%
Other Real Estate	7,122	17.3%	2,916	6,136	9,052	20.9%	27.1%
Property Sales	38,422	93.5%	17,927	22,405	40,332	93.3%	5.0%
Rents	1,058	2.6%	490	442	933	2.2%	-11.9%
Other income	1,592	3.9%	932	1,036	1,968	4.6%	23.6%
(Renovation Business)	1,307	3.2%	-	-	1,520	3.5%	16.3%
Total net sales	41,074	100.0%	19,350	23,884	43,234	100.0%	5.3%

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

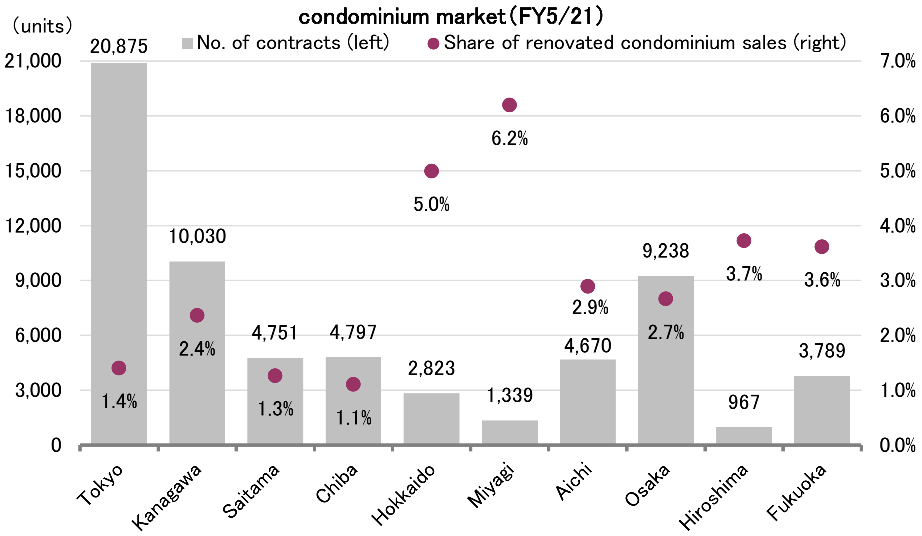
(1) Sales of renovated condominiums

In renovated condominiums, the number of sales is forecast to decrease 1.4% YoY to 1,400 units and the sales amount to decline 0.1% to ¥31,280mn, for around the same levels as in the previous period. The level of stocks at the end of the period had declined, while currently the purchasing environment is becoming more severe due the recovery of market conditions. But the Company is still aiming to achieve the forecasts by further strengthening the sales structure, including by expanding store facilities and recruiting additional personnel. For stores, following from the opening of the Tokyo Nihonbashi branch, in the previous period, it will newly open a preparation office in Omiya, Saitama. Also, as a new product, it has started sales of ECOCUBE, the industry's first energy-saving-type renovation product, with the aim of differentiating itself from the properties of other companies.

Through these measures, the Company is aiming to recover its market share in the metropolitan Tokyo area, which has declined in the last few years due to the intensification of competition. Looking at its share of the renovated condominium market (share of the number of used condominium contracts) in each sales area, in FY5/21 its shares were 1.6% of the metropolitan Tokyo area and 3.4% of the regional area, while in around 2008, it had acquired an approximately 5% share of the metropolitan Tokyo area*. Going forward, it is expected to expand its share not only in Tokyo, but also in Chiba Prefecture and Saitama Prefecture through the openings of the Tokyo Nihonbashi branch, and the preparation office in Omiya, Saitama. On the other hand, in the regional area as well, it is thought to be aiming to continue to maintain and improve its market share.

* It has the leading industry share, of approximately 20% of Compliant Renovated Housing (R Housing) that complies with the standards for excellent renovation quality defined by the Renovation Council.

No. of used condominium contracts and share of the renovated condominium market (FY5/21)



Note: the data period is June 2020 to May 2021. The sales share of the regional area is calculated by the number of units sold at each branch ÷ the number of used condominium contracts in the prefecture, etc., in which the branch is located
Source: the number of used condominium contracts was prepared by FISCO from the Real Estate Information Network System's Monthly Bulletin Market Watch (nationwide edition)

Also, in order to strengthen the purchases and sales structures, the Company has newly established the Direct Retail Department within the Renovated Condominium Business Division. Conventionally, it makes a purchase after assessing the information on properties for sale acquired from real estate businesses, and then in many cases, after renovating the property, it sells it via a real estate sales company. But in the case of a sale via a brokerage company, there is the problem of the significant cost burden incurred by both the seller and buyer, with both incurring brokerage fees of around 3% of the property price. By conducting direct purchases and sales, the Company does not have to pay these brokerage fees. For direct sales, the subsidiary FLIE, Co., Ltd., which was established in 2019, operates the FLIE platform for direct sales by sellers, and the Company is also utilizing this platform to conduct sales, The Direct Retail Department started with 6 employees, of who several were transferred from INTELLEX Housing, which is the subsidiary previously responsible for some sales of renovated condominiums. In the future, INTELLEX Housing will handle properties including those of other companies and detached housing.

For the number of sales units by region in FY5/22, in the metropolitan Tokyo area, it is forecast to decline 4.8% YoY to 611 units and in the regional area, to increase 1.4% to 789 units. There are few properties for sale in the metropolitan Tokyo area and it seems that the severe conditions in the purchasing environment will continue for the time being. Also, the gross profit margin of property sales is expected to be around the same level YoY, at slightly less than 14%. It rose to as high as around 17% in the 4Q in the previous period, but in 2021 in the metropolitan Tokyo area, the number of newly built condominiums supplied is forecast to recover, so it seems that the tight conditions in the demand-supply environment in the previous period will ease slightly. The project period is expected to be around 110 days compared to 107 days in the previous period.

(2) Property sales of other real estate

Property sales of other real estate are expected to continue to increase, rising 27.1% YoY to ¥9,052mn. Of this amount, the forecasts are for the gain on the sale of leaseback property real estate trust beneficiary rights to rise 137.0% to ¥4.5bn (more than ¥2bn in both the 1H and 2H), and the gain on the sale of single properties, such as buildings, and of detaching housing to decrease 12.8% to ¥4.5bn. The Company has no plans to sell asset sharing products at the current time.

In the Leaseback Business, the forecast is for the number of purchases to increase from a pace of 9 units per month in the previous period to a pace of 10 to 15 units per months in FY5/22. The Company will strengthen purchases through partnerships, including with the Century 21 Group and a major railway-related real estate brokerage company. In addition, in order to strengthen direct sales, it intends to improve the name recognition of Ambai, which is the Company's service brand, by broadcasting TV commercials in the regional area. The number of properties owned at the end of the period is expected to decrease slightly on the end of the previous period, including because the number of sales is forecast to increase.

(3) Rents and other income

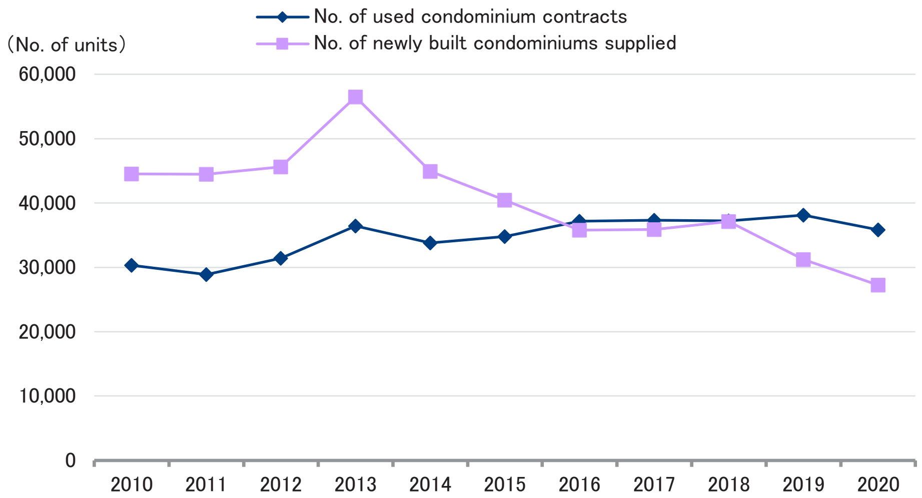
Alongside the decrease in properties owned, the outlook is that rents will decrease 11.9% YoY to ¥933mn. Conversely, other income is forecast to increase 23.6% to ¥1,968mn. In the Renovation Business, sales will recover and rise 16.3% to ¥1,520mn due to the increases in orders from corporations and individuals. In addition, sales are forecast to increase in the Hotel & Accommodation Business, including as LANDABOUT's occupancy rate will rise and from the acquisition of montan HAKATA. As measures to improve the occupancy rate, the Company's policy is to stimulate demand among the younger generation in Japan by utilizing SNS and increasing exposures in media, including TV and magazines, and by creating appealing plans. The Hotel & Accommodation Business recorded a loss of slightly more than ¥300mn in the previous period, but the aim is for it to recover to the profit-loss break-even point in FY5/22.

The leading role in the condominium market is changing from being the newly built market to the used market, and the outlook is that renovated condominiums will steadily increase in the future

2. Medium- to long-term outlook for the renovated condominiums market

Looking at how sales of condominiums have trended in the metropolitan Tokyo area, for 5 consecutive years from 2016, sales of used condominiums were higher than those of newly built condominiums. In 2021 also, the forecast is that newly built condominiums will be 32,000 units, the first increase in 3 years, but in January to June 2021, used condominiums increased at a record pace, rising 29.0% on the same period in the previous year to 21,000 units, and it seems certain that they will exceed newly built condominiums for the sixth consecutive year. The main factors are thought to be that the number of used condominium stocks is increasing year-by-year, and also the appeal of renovated condominiums has risen due to the enhance renovation work and warranty system.

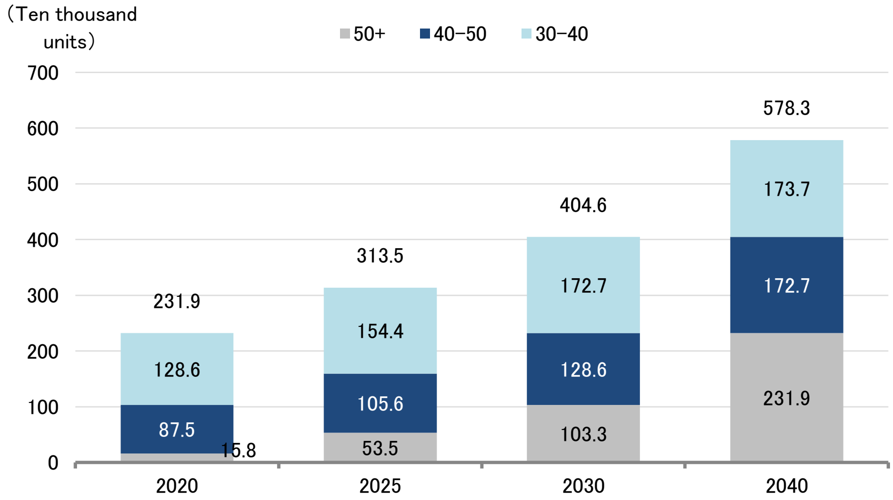
Condominium Market Trends in Metropolitan Tokyo Area



Source: prepared by FISCO based on data on used condominiums from the Real Estate Information Network System and on newly built condominiums from the Real Estate Economic Institute Co., Ltd.

The outlook is that the used condominiums market will grow in the medium- to long-term as well. This is because, according to a survey by the Ministry of Land, Infrastructure, Transport and Tourism, nationwide condominium stocks in 2020 were 6,753,000 units, of which, condominiums constructed at least 30 years ago for which renovation is deemed essential were 2,319,000 units, or slightly more than 30%. However, by 2040 in 20 years' time, this number is forecast to grow by approximately 2.5 times to 5,783,000 units. The residents' consent is necessary to change an entire condominium building and the reality is that this is not easy, so the growth of the renovated condominium market will be supported by projects for single condominiums. In fact, up to the present time nationwide, only 263 condominium buildings have been rebuilt (as of April 2021). Therefore, although competition in the renovated condominium market is expected to continue to intensify in the future, for the Company, which has an abundance of expertise and track record for renovation projects, at FISCO we think that it still has plenty of room to grow when viewed from a medium- to long-term perspective.

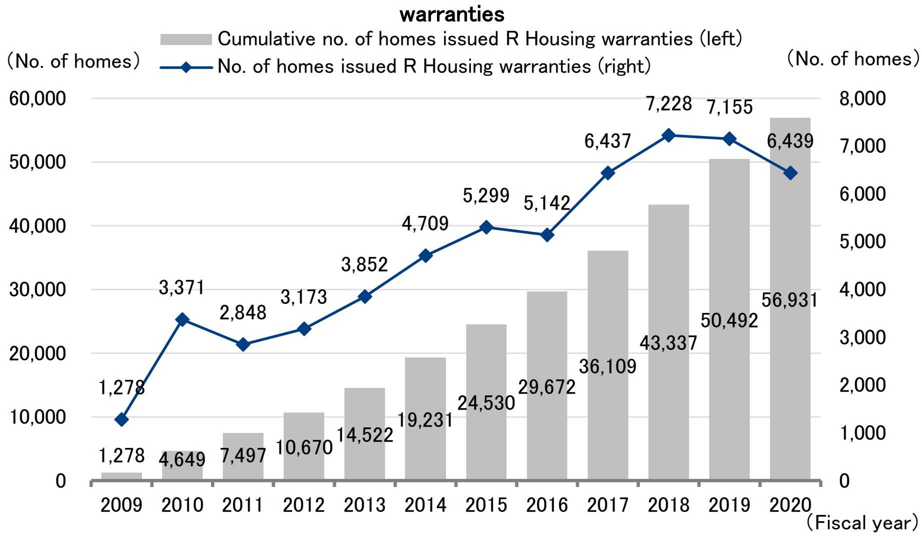
Estimated number of condominium units in stock by building age



Source: prepared by FISCO from data from the Ministry of Land, Infrastructure, Transport and Tourism

With the aims of increasing name awareness and promoting the distribution of renovated housing, the Renovation Council was launched by the Company and others to issue warranties for Compliant Renovated Housing (R Housing), which is housing that complies with its standards for excellent renovation quality. At the end of 2020, warranties had been issued for a cumulative total of 56,931 homes, of which, the Company held the leading share of approximately 25%.

No. of homes issued Compliant Renovated Housing (R Housing) warranties



Source: prepared by FISCO from materials from the Renovation Council

Launched ECOCUBE, an energy-saving renovation product, with the aim of contributing to solving social issues

3. Priority measures

(1) Formulate a management philosophy

As the direction that the Group is aiming for in the future, the Company has newly formulated a management philosophy, as MISSION, VISION, SLOGAN, VALUE to add to the previous SLOGAN. Its MISSION is to "Connect people and society with new value and to create happiness," its VISION is to "Create rich lives for everybody through renovation," and its SLOGAN is "Measuring future values." For VALUE, which serve as the action guidelines for employees, it has formulated 11 guidelines in total, including on co-creation with customers and on promoting SDGs.

For its renovation concept as well, the Company has redefined its meaning as "Not limited to spaces of condominiums, go beyond the ideas of the existing framework to create new things." In a situation in which new ways of living are being required during the COVID-19 pandemic, it is considered to be a company that is playing the role required of it by society.

(2) Business policy

As its business policy for the future in the renovation business field, the Company's strategy is to differentiate itself from competitors and increase its share of the renovated condominiums market not only by strengthening its purchasing system, but also by increasing sales of ECOCUBE, an energy-saving renovation product it has developed as a new product. It is also working on building a renovation platform that will serve as the foundation for the activation of the renovation market. Specifically, it intends to enhance the renovated condominium warranty system (extend the warranty period, etc.) * and grow the projects consignment business through partnerships with other companies. On the other hand, in the solutions business field, its policy is to aim to grow the Asset Business, the Leaseback Business, and the Asset Sharing Business and to stabilize both stock earnings and flow earnings.

* From June 2021, the after-sales service warranty period was extended from the previous 10 years to a maximum of 20 years. It also started providing a free inspection service from one year after entering a residence (launched first in the metropolitan Tokyo area and plans to launch it sequentially in other areas).

Also, the Corporate Division, which supports both business fields, provides sales support by utilizing IT, while its strategy is also to work on optimizing the businesses and the assets portfolio through a financial strategy to support the development of products in the future and the growth of the solutions business field. In the utilization of IT, by collecting and analyzing various data on properties obtained from the requests for assessments for more than 2,000 properties per month, it makes visible information, such as on the areas with high demand and the optimal renovation specifications, with the aim of improving efficiency by systemizing the assessment work that was previously carried out manually.

(3) The ECOCUBE energy-saving renovation product

Society as a whole is progressing measures for SDGs, and in this situation, in July 2021 the Company announced and began sales of ECOCUBE, the industry's first energy-saving renovation product. ECOCUBE is a product that achieves both improved health and economic benefits for the homes' occupants through energy saving, by installing an air conditioning system that increases heat insulation and airtightness based on a room's heat calculations and by using high performance ventilation filters. Its development and sales started in 2011 and then it was re-released following repeated improvements. Based on the standard specifications of "heat calculations + heat insulation materials + high performance inner windows + heat exchange-type primary ventilation," it provides the added value of realizing "energy-saving" in renovations of existing homes, and it is a product that contributes to the realization of the decarbonized society that the Japanese government is aiming for.

In the event that the average area of the renovated condominium being sold by the Company is less than 70m^2, the power consumption of heating and cooling devices is reduced significantly, by ¼ compared to conventional methods. The Company estimates that this has the effect of reducing electricity bills by ¥100,000 a year. Compared to an ordinary renovated condominium, the sales price is around ¥2mn higher, but on considering various factors, such as that the government's subsidy system* can be utilized for energy-saving-type renovated housing and that it can be expected to reduce electricity bills, at FISCO we think that there can be expected to be sufficient demand for it as a differentiation product.

> * In the project to support the verification of next-generation energy-saving construction materials being promoted by the Ministry of Economy, Trade and Industry, it has established the Support Subsidies to Promote Investment in Energy Saving system. For the costs of renovations that use products eligible for subsidies, including high-performance insulation materials and double-glazing windows, in the case of within ½ of these costs and a multiple-dwelling housing complex, subsidies can cover costs up to the upper limit of ¥1.25mn. The Ministry of the Environment has also established the same subsidy system.

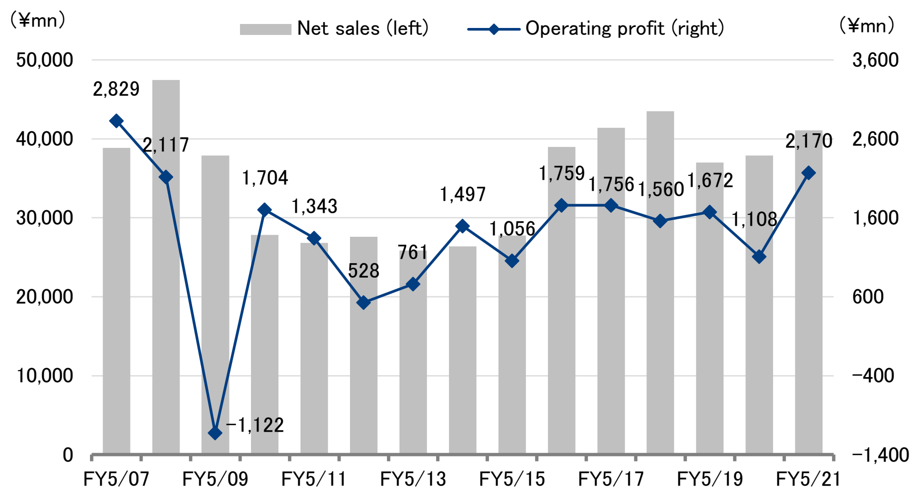
The sales target for ECOCUBE in FY5/22 is 200 units, but this has not been incorporated into the results forecasts. Also, in the future the Company will progress a branding strategy to improve its name awareness. In addition, in order to make visible its energy-saving effects, it plans to establish the Heat Calculations Center in Sapporo to collect data, such as on rooms' temperature changes and power consumption. Therefore, in the short term, it seems that the effect on profits of the start of ECOCUBE sales will be minimal. But in the medium- to long-term, it is expected to contribute to the growth in market share alongside the improvement in the brand's strength.

(4) Medium-term vision

The Company vision is to "Create rich lives for everybody through renovation." It has set the policy of aiming for business growth not only by conventional renovations of used condominiums, but also by creating things that have new creativity that go beyond existing frameworks and concepts. This includes the Kyoto Machiya Revitalization Project that will lead to the revitalization of this region, the Hotel & Accommodation Business, and measures to increase sales of ECOCUBE as a product contributing to realizing a decarbonized society.

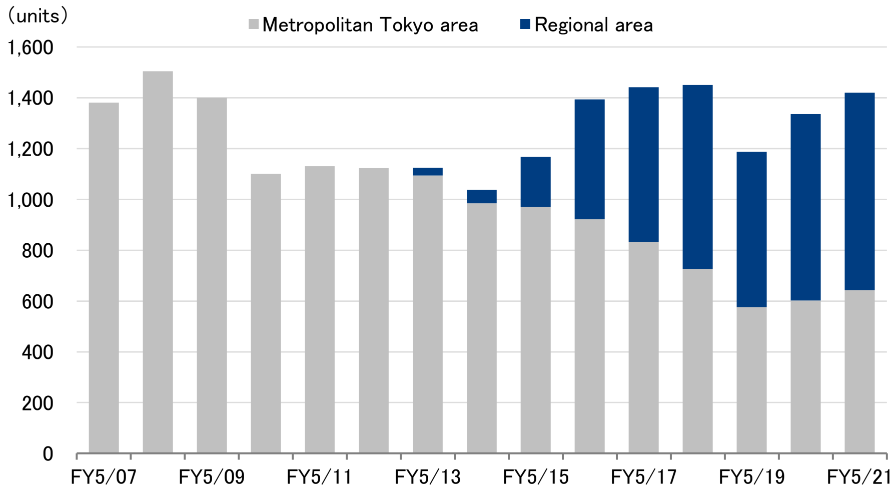
Looking at how the Company's results have trended, the record highs for net sales were in FY5/08 at ¥47,448mn and for operating profit were in FY5/07 at ¥2,829mn, and since then, while they have been rises and falls, growth has continued to be sluggish. The main reason for this has been that due to the intensification of competition in the renovated condominiums market, the number of units sold in the metropolitan Tokyo area has continued to decline. Since FY5/13, it appears that the Company has been able to cover for this sales decline in the metropolitan Tokyo area by developing its business in the regional area and so has been able to maintain the level of results. As previously explained, toward once again increasing share in the metropolitan Tokyo area, the Company is working to strengthen the purchasing system, while it is also progressing measures to increase sales of ECOCUBE, a differentiation product, and it is aiming to further increase sales of renovated condominiums. Also, in order to grow the Leaseback Business and Asset Sharing Business, which are in the solutions business field, its strategy is to aim to expand the earnings foundation and to improve stability. In the Hotel & Accommodation Business, in which occupancy rates have continued to slump during the COVID-19 pandemic, it plans to conduct sales of asset sharing products once the occupancy rates have recovered to a certain level. Based on the above, it has set FY5/22 as a preparation period in which to build a foundation toward earnings growth, and at FISCO, we think that the Company will enter a stage of re-growth from FY5/23 onwards

Long-term results trends



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

No. of renovated condominium sales



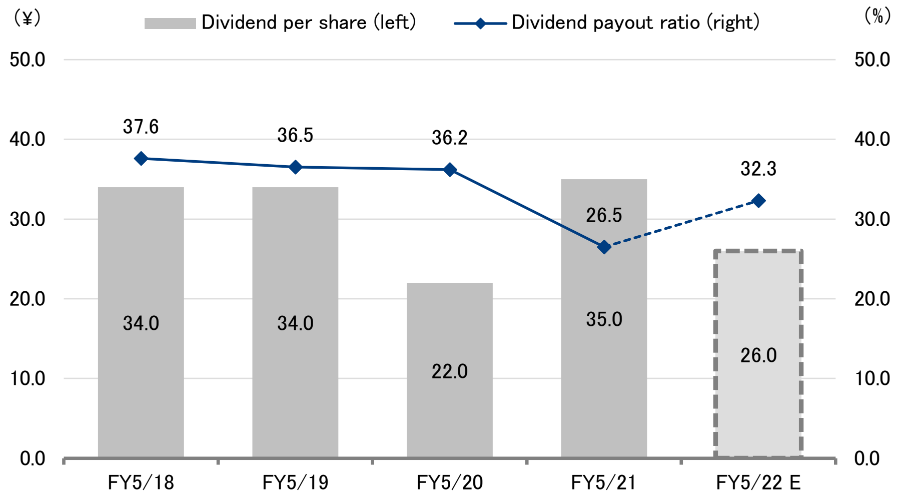
Source: Prepared by FISCO from the Company's results briefing materials

Shareholder return policy

Basic dividend policy is to target a dividend payout ratio of at least 30%

The Company's policy is to return profits to shareholders by paying dividends. As its dividend policy, it has introduced a policy of linking the dividend to results while also aiming to strengthen its financial position and to supplement retained earnings. Specifically, its policy is to pay a dividend targeting a dividend payout ratio (on a consolidated basis) of at least 30%. As the forecast for FY5/22 is for profits to decline, it plans to decrease the dividend per share by ¥9.0 YoY to ¥26.0 (dividend payout ratio, 32.3%).

Dividend per share and dividend payout



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

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