COMPANY RESEARCH AND ANALYSIS REPORT

INTELLEX Co., Ltd.

8940

Tokyo Stock Exchange First Section

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FISCO Ltd. Analyst
Yuzuru Sato

FISCO Ltd.
https://www.fisco.co.jp

Index

Summary

Targeting ordinary profit of ¥3.2bn in FY5/27 on a differentiation strategy of expanding sales of the ECOCUBE energy-saving renovation product

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 1H FY5/22

In 1H FY5/22 consolidated results (June-November 2021), net sales decreased 18.7% year on year (YoY) to ¥17,089mn and ordinary profit increased 2.5% to ¥400mn. Net sales decreased due to the number of renovated condominiums sold falling by 23.6% to 569 units, but profit growth was secured owing to an increase in the gross profit margin against a backdrop of rampant demand, transfer of real estate trust beneficiary rights for leaseback properties (¥1,843mn), and other factors.

2. Outlook for FY5/22

The outlook for FY5/22 consolidated results calls for net sales to increase 5.3% YoY to ¥43,234mn and operating profit to decrease 47.9% to ¥1,004mn, as the Company has maintained its initial forecasts. There is a strong likelihood that net sales will fall short of the forecast due to a low rate of progress in renovated condominium sales, but with regard to profits, the Company is planning to transfer real estate trust beneficiary rights for leaseback properties in the second half as well and is anticipating selling other revenue-generating properties, and SG&A expenses are likely to be below the forecast, so FISCO believes the Company’s forecasts are achievable. Profit is projected to be down for the full year due to a reactionary decline from selling profitable properties in 2H FY5/21.

3. Initiatives for conformance with continued Prime Market listing criteria

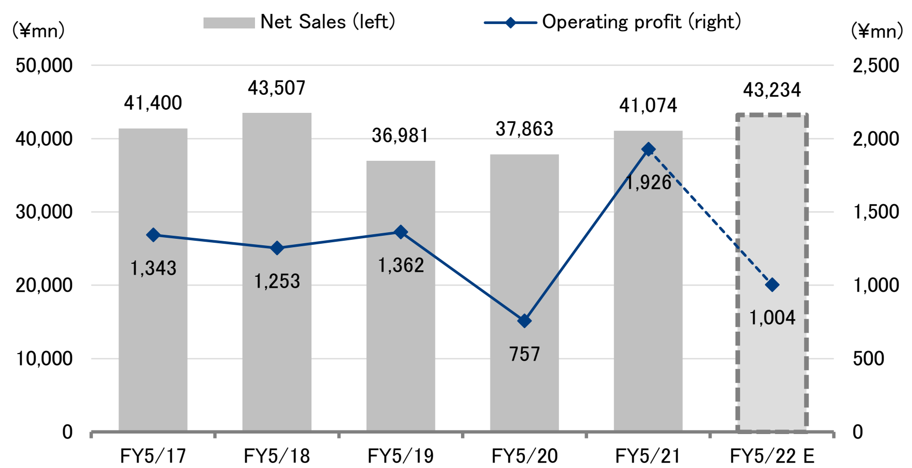
The Company chose to list on the Prime Market after the Tokyo Stock Exchange restructures its market divisions in April 2022. However, at present, the Company does not meet the criteria for tradable shares market cap (¥10bn), which is required for continued listing on the Prime Market*. For this reason, the Company has clarified a policy to meet the continued listing criteria by working to increase its market cap through improving results, enhancing corporate governance, and strengthening IR activities in line with the medium-term management plan that it plans to announce in July 2022. The key point in this is improving results, and the Company has targeted ordinary profit of ¥3.2bn in FY5/27. Its strategy is to increase earnings in its mainstay Renovation Business while making the Solutions Business (asset, leaseback, and asset sharing businesses) a stable earnings base. As a product to drive growth, the Company plans to actively promote the spread and sale of the ECOCUBE energy-saving renovation product, the first of its kind in the industry. By increasing sales of ECOCUBE, which is a high added-value product, the Company also expects to raise the average sales price for renovated condominiums and increase the gross profit margin. If the Company achieves its target for profit attributable to owners of parent, when converting based on the average P/E ratio for the past five years (which is around 9), it would meet the tradeable shares market cap requirement. Also, the Company's net assets per share is in the ¥1,300 range, and its P/B ratio is in the 0.45 range, both of which are low compared to other companies in the same industry. The stagnation in earnings over the past several years is seen as one factor, but if a path to regrowth from increased sales of ECOCUBE going forward becomes clear, FISCO believes that corrections to the Company's valuation level will also make progress.

* Calculated based on the stock price as of January 21, 2022: Market cap of ¥5.3bn ×Trading shares ratio of 51.6% = ¥2.7bn.

Key Points

- In 1H FY5/22 results, sales decreased but profit increased above initial forecasts thanks to an improved profit margin, etc.
- FY5/22 results outlook: net sales may fall short, but profits expected to meet initial forecasts
- Aiming for ordinary profit of ¥3.2bn in FY5/27 by increasing sales of the ECOCUBE energy-saving renovation product to differentiate from competitors

Results trends



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

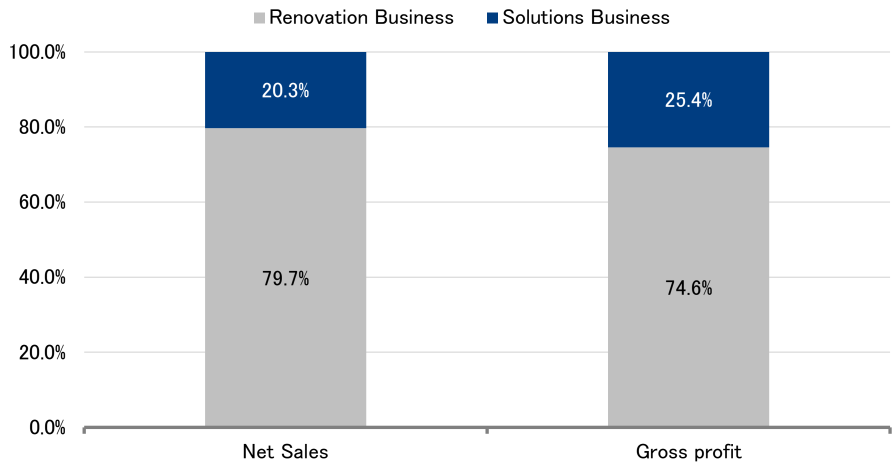
Business Summary

On the main axis of the Renovation Business, developing the Solutions Business, which includes the Leaseback Business and Asset Sharing Business

1. Descriptions of business segments

The Company's business segments are the Renovation Business, in which it purchases, renovates and resells individual used condominium units, and the Solutions Business. Previously, the Company was divided into the Renovated Condominium Business and Other Real Estate Business, but it has restructured its business segments as of FY5/22 based on its current business situation in connection with expansion of solutions-related businesses that utilize the Leaseback Business and Asset Sharing Business, etc., and development of service businesses derived from real estate businesses, including Renovation Business and Hotel and Accommodation Business. The restructuring mainly consists of transferring renovation services, which had been recorded in Other Real Estate Business, to the Renovation Business. Looking at percentages of results by business in 1H FY5/22, the Renovation Business accounted for 79.7% of net sales and 74.6% of gross profit.

Percentages of results by business segment (1H FY5/22)



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

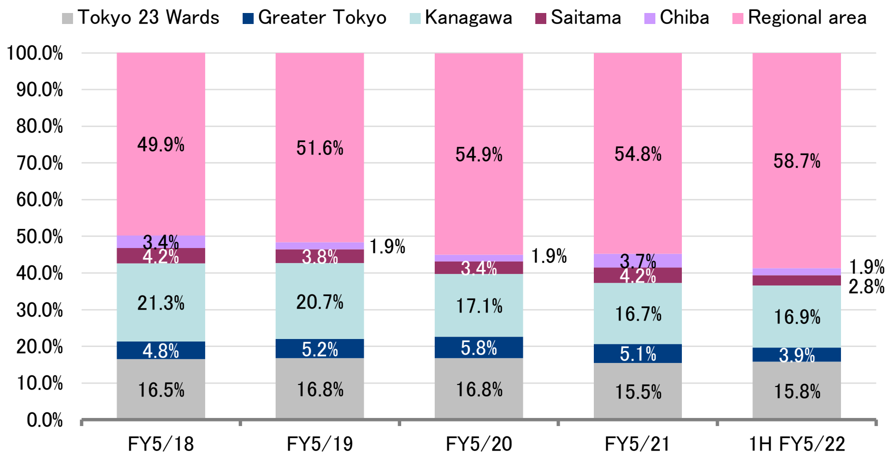
(1) Renovation Business Field

The Renovation Business field includes resale, leasing, and brokerage of renovated condominiums and detached housing, renovation services, and the FLIE platform for real estate transactions. Renovated condominium sales account for around 95% of segment sales.

In terms of business flow, subsidiary INTELLEX Space Plan Co., Ltd. creates optimal renovation plans for properties purchased based on information from real estate brokers and performs the renovations, and then the properties are sold through real estate brokers, etc. (The Company 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. In addition, INTELLEX Space Plan contracts renovation work 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 1H FY5/22, it constituted 58.7% of units sold. As of 2020, the Company's number of condominium stocks nationwide was 6,753,000 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. Going forward, it will pursue a strategy that involves regaining lost ground by expanding sales of the aforementioned ECOCUBE even in the metropolitan Tokyo area and raising the percentages of units to approximately 50%.

Percentages of units sold by area



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

Renovation condominium services are provided on consignment to other companies in the same industry that sell renovated condominiums and also to 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, and nearly 70% of this business's sales are from corporate clients.

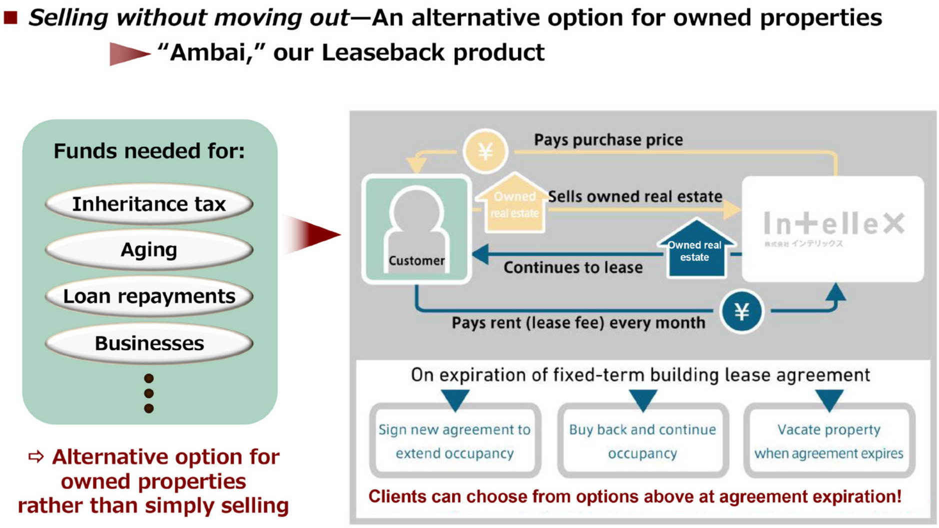
(2) Solutions Business Field

The Solutions Business field includes development, sales, leasing, management, brokerage, etc. for other revenue-generating real estate (buildings, land, etc.), development and sales of newly built condominiums, and the leaseback, asset sharing, and hotel and accommodation businesses.

a) Leaseback Business

The Leaseback Business is a service the Company started providing in FY5/17. 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.

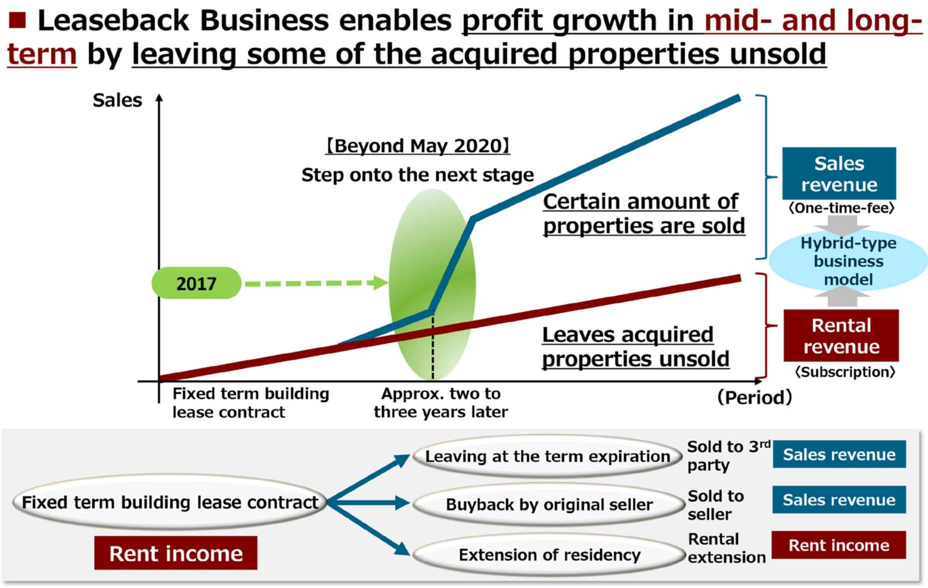
Framework of the Leaseback Business



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. Sales include cases in which units are sold individually and in which multiple units are bundled and transferred to a fund as real estate trust beneficiary rights.

Promoting the Profitability of the Leaseback Business



Source: The Company's results briefing materials

For the Leaseback Business, &Do Holdings 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>).

b) Asset Sharing Business

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.

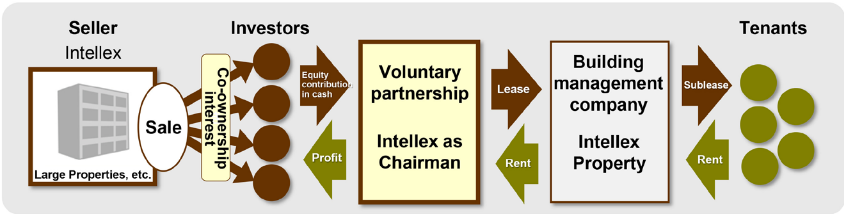
The real estate property management is mainly carried out by the subsidiary INTELLEX Property Co., Ltd. The Group as a whole can acquire flow income from small-lot sales and also stock (recurring) income from voluntary partnership chairperson fees and property management fees. Conversely, as investors' 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 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)

- **We sell Asset Sharing Series, a financial product sub-dividing ownerships of real estate properties, backed up by a voluntary partnership-type scheme under the Act on Specified Joint Real Estate Ventures**



- **Features:**

1 Real estate investment in smaller amounts made possible
- **"Share" the ownerships of high-quality real estate properties in as small as 1 million yen units**

2 Stable profit and easy operational ,anagement
- **Diversification of vacancy & arrearage risks enabled by co-ownership**
- **Effective operational management**

3 Tax benefit
- **Reduced asset value as gifted or inherited assets**
- **Easy to divide equally unlike general real estate properties**

Source: The Company's results briefing materials

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

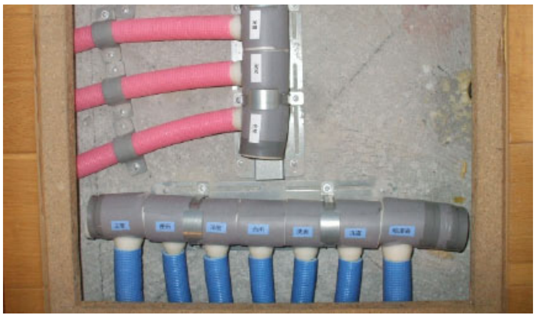
2. The Company's strengths

In the Renovation 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 or 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. For this reason, the Company is also beginning to strengthen its system to make purchases from direct sellers.

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 establishing methods unique to condominium renovation. 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 1H FY5/22 results, revenue decreased but profit increased above initial forecasts thanks to an improved profit margin and other factors

1. Outline of results for 1H FY5/22

In 1H FY5/22 consolidated results, net sales decreased 18.7% YoY to ¥17,089mn, operating profit increased 3.7% to ¥560mn, ordinary profit increased 2.5% to ¥400mn, and profit attributable to owners of parent increased 6.6% to ¥242mn, for higher profit on lower sales. 1H sales decreased for the first time in three years, but profit categories increased for the second consecutive year.

Consolidated results for 1H FY5/22

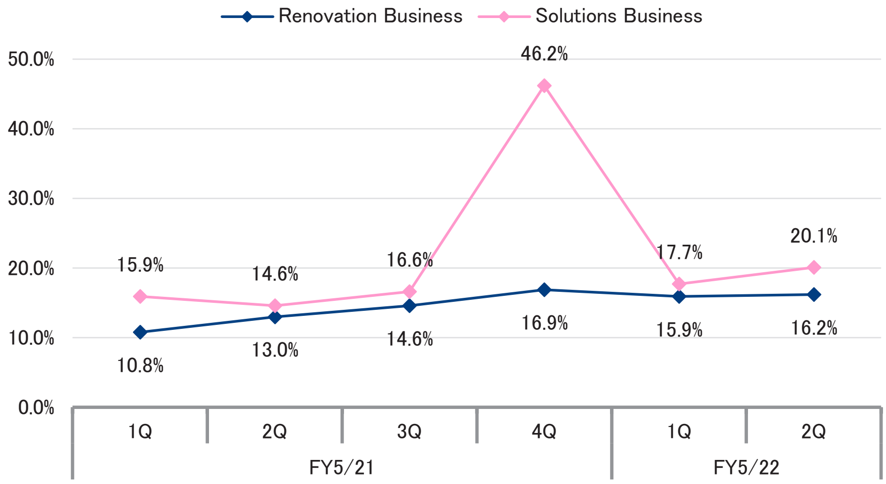
(¥mn)

	1H FY5/21		1H FY5/22				
	Results	of sales	Company forecast	Results	of sales	YoY	vs. forecast
Net sales	21,031	-	19,350	17,089	-	-18.7%	-11.7%
Gross profit	2,769	13.2%	2,978	2,926	17.1%	5.7%	-1.7%
SG&A expenses	2,229	10.6%	2,561	2,365	13.8%	6.1%	-7.6%
Operating profit	540	2.6%	417	560	3.3%	3.7%	34.2%
Ordinary profit	390	1.9%	274	400	2.3%	2.5%	45.7%
Extraordinary profit/loss	21	0.1%	-	-22	-0.1%	-	-
Profit attributable to owners of parent	227	1.1%	180	242	1.4%	6.6%	34.1%
Renovated condominium sales							
No. of sales (units)	745	-	666	569	-	-23.6%	-14.6%
Sales amount (¥mn)	16,725	79.5%	15,011	12,896	75.5%	-22.9%	-14.1%

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

With respect to net sales, real estate trust beneficiary rights for leaseback properties were transferred (¥1,843mn), but the number of renovated condominiums units sold decreased 23.6% YoY to 569 units and the sales amount fell to ¥12,896mn, a decline of 22.9%, which decreased sales. At the same time, the gross profit margin rose YoY from 13.2% to 17.1% and gross profit increased 5.7%. This is attributable to the profit margin for renovated condominium sales increasing YoY from 12.1% to 16.0% and the profit margin for properties sold in the Solutions Business through transfer of real estate trust beneficiary rights also increasing from 14.8% to 18.3%. SG&A expenses increased 6.1% YoY due to increased new business investment costs, but this was absorbed by the increase in gross profit, allowing the Company to secure an increase in operating profit.

Gross profit margin of units sold



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

Compared to initial forecasts, net sales fell short by 11.7% due to not achieving targets for renovated condominium sales, but operating profit was 34.2% above the forecast. Renovated condominium sales themselves are buoyant, so the gross profit margin was 17.1%, against an initial forecast of 15.4%. The factors are gross profit progressing generally according to plan and SG&A expenses 7.6% under the initial target. Personnel expenses and new business-related expenses, which had been expected at the start of the period to drive up SG&A expenses, both came in under forecasts, and lower sales commissions from the decrease in renovated condominium sales was also a reducing factor. The number of employees at the end of 1H FY5/22 was 320, a decline of five employees from the end of FY5/21, which was unchanged from the same period of the previous year. At the start of the period, the Company had planned to increase employees by 46 YoY on a full-year basis.

Renovated condominium sales declined, but purchases increased, reversing a trend

2. Trends by business segment

(1) Renovation Business

Net sales in the Renovation Business declined by 23.1% YoY to ¥13,613mn, and operating profit increased 9.4% to ¥679mn. Looking at a breakdown of sales, sales of renovated condominiums decreased by 24.8% to ¥12,773mn due to a decline in units sold, rents decreased 20.7% to ¥75mn, and other income (primarily renovation work) increased 25.2% to ¥765mn. The profit margin increased, but gross profit slipped 0.4% to ¥2,182mn. Owing to a decrease in sales commissions and other factors, however, profit increased on an operating profit basis.

Renovation Business results

(¥mn)

	Net sales			Gross profit		
	1H FY5/21	1H FY5/22	YoY change %	1H FY5/21	1H FY5/22	YoY change %
Property sales	16,996	12,773	-24.8%	2,048	2,047	-0.1%
Rents	94	75	-20.7%	66	54	-18.0%
Other income	611	765	25.2%	75	80	6.3%
Total	17,702	13,613	-23.1%	2,190	2,182	-0.4%

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

The number of renovated condominiums sold decreased by 23.6% YoY to 569 units, the first decrease in three years. Since spring 2020, there have been fewer used condominiums on the market due to the spread of the novel coronavirus (COVID-19), which resulted in a decrease in the number of units purchased last fiscal year, and this was a factor for the decline in units sold. Demand however continued to be rampant, so sales themselves have been steady and the gross profit margin increased.

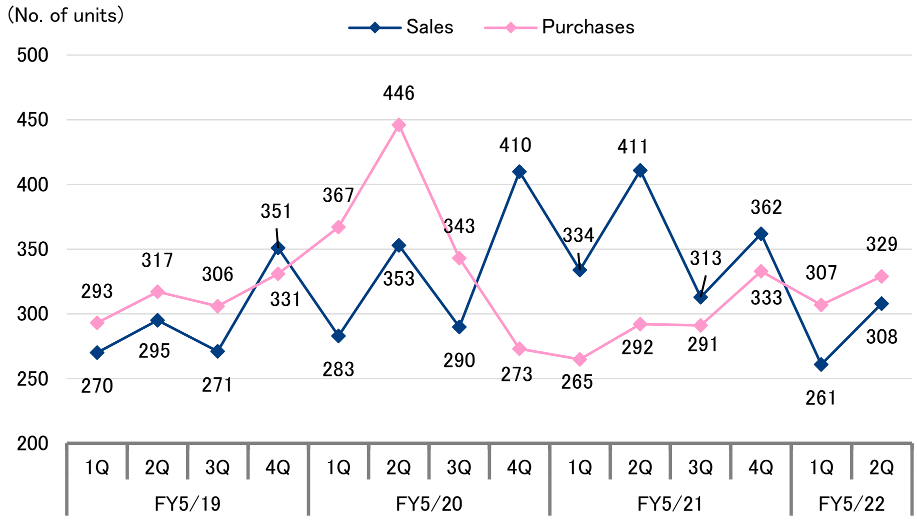
The number of units purchased increased for the first time in two years, rising 14.2% YoY to 636 units. The average purchase price increased 10.4%, reversing four years of declines and reflecting ongoing tight supply-and-demand conditions. By area, purchases in the Tokyo metropolitan area rose 12.7% to 276 units and in regional areas increased 15.4% to 360 units. Though both increases reversed previous trends, levels were still low compared to two years prior, which suggests the persistence of a low-volume market. There are differences in YoY change depending on the location, but this is largely dependent on personnel factors, and the Company is working to increase the number of purchased units by flexibly restructuring systems, including transferring office general managers, etc.

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

	No. of purchases				No. of sales			
	1H FY5/20	1H FY5/21	1H FY5/22	YoY	1H FY5/20	1H FY5/21	1H FY5/22	YoY
Metropolitan Tokyo area	355	245	276	12.7%	298	326	235	-27.9%
Tokyo	208	114	139	21.9%	137	150	112	-25.3%
Kanagawa	111	100	115	15.0%	125	129	96	-25.6%
Saitama	29	23	12	-47.8%	21	34	16	-52.9%
Chiba	7	8	10	25.0%	15	13	11	-15.4%
Regional area	458	312	360	15.4%	338	419	334	-20.3%
Sapporo	86	63	77	22.2%	56	70	55	-21.4%
Sendai	47	39	48	23.1%	33	34	46	35.3%
Nagoya	101	58	44	-24.1%	90	78	51	-34.6%
Osaka	133	95	99	4.2%	89	142	93	-34.5%
Hiroshima	19	15	15	0.0%	20	20	21	5.0%
Fukuoka	72	42	77	83.3%	50	75	68	-9.3%
Total	813	557	636	14.2%	636	745	569	-23.6%
Total amount (¥mn)	12,200	7,500	9,500	27.3%	14,773	16,725	12,896	-22.9%
Average price (¥mn)	14.8	13.5	14.9	10.4%	23.2	22.4	22.7	1.0%

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

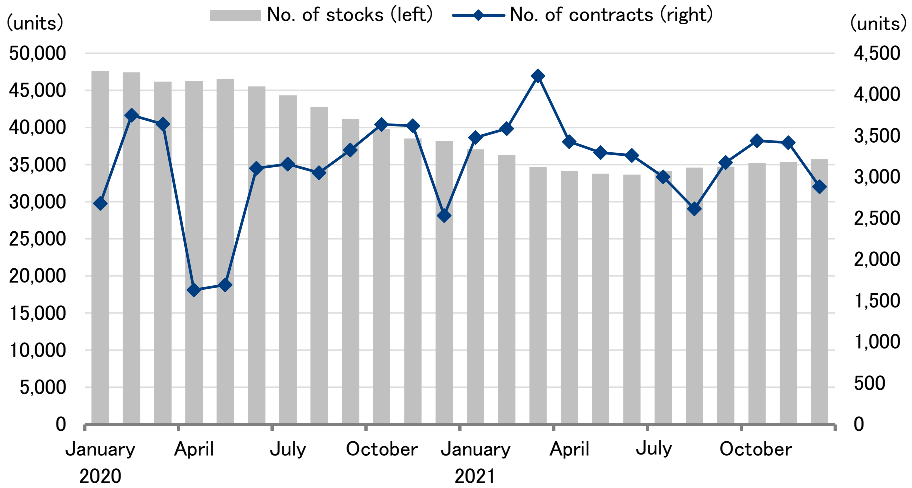
No. of renovated condominium sales and purchases



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

Regarding trends in the used condominium industry in the Tokyo metropolitan area in the period under review (June-November 2021), the number of contracts declined 5.0% YoY to 18,911, reversing the previous trend. The number of stocks was 35,000 units as of December 2021, as signs of a slight increase began to appear, but compared to the pre-COVID level (March 2021), stocks are still around 20% lower, so supply-and-demand for the time being is expected to continue to be tight.

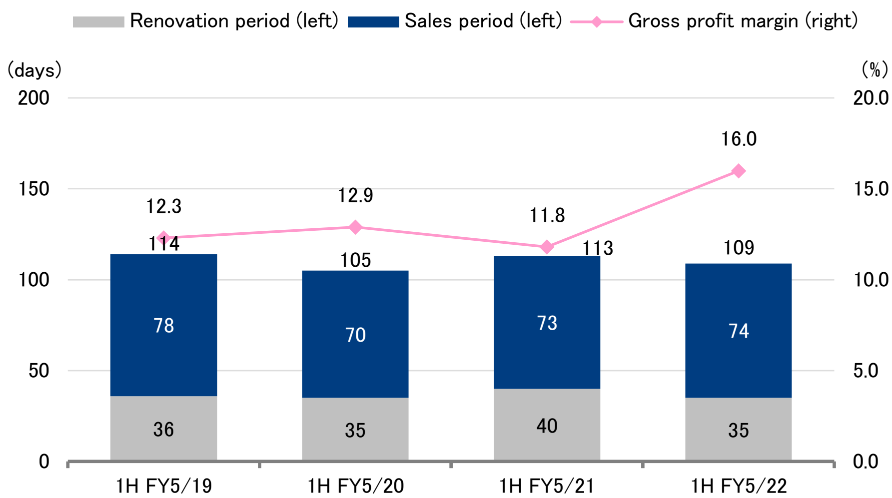
The number of used condominium contracts and the number of stocks in the metropolitan Tokyo area



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

The project period, which impacts the gross profit margin on renovated condominium sales, was 109 days in 1H FY5/22, four days shorter than the 113 days of 1H last year. The gross profit margin decreased in 1H last year on the impact of conducting some discount sales due to the COVID-19 pandemic, but in 1H FY5/22, sales proceeded steadily, and the gross profit margin increased, reversing the trend. A surge in lumber prices, material shortages and price rises caused by the pandemic had a negligible impact.

Renovated condominium project period and gross profit margin



* The gross profit margin since 1H FY5/21 is for units sold in the Renovation Business
Source: Prepared by FISCO from the Company's results briefing materials

In other income, the increase is primarily attributable to an increase in orders for renovation work against a backdrop of increasing renovation demand. Sales from renovation increased 28.5% YoY to ¥740mn.

(2) Solutions Business Field

In the Solutions Business field, net sales increased 4.4% YoY to ¥3,475mn and operating profit increased 20.1% to ¥302mn. Looking at the breakdown of sales, property sales increased 4.4% to ¥2,895mn as a result of selling revenue-generating properties and transferring real estate trust beneficiary rights in the Leaseback Business. In addition, rental income increased 6.0% to ¥485mn and other income, which is primarily the hotel and accommodations business, declined 2.1% to ¥94mn. Also, gross profit recorded double-digit growth, increasing by 28.5% to ¥744mn as a result of an increased profit margin on property sales, reduced loss in the hotel and accommodation business, and other factors.

Solutions Business Field

(¥mn)

	Net Sales			Gross profit		
	1H FY5/21	1H FY5/22	YoY change %	1H FY5/21	1H FY5/22	YoY change %
Property sales	2,774	2,895	4.4%	410	529	29.2%
Rents	458	485	6.0%	229	249	8.4%
Other income	96	94	-2.1%	-61	-34	-
Total	3,328	3,475	4.4%	578	744	28.5%

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

Looking at earnings in the Leaseback Business, sales from transfer of real estate trust beneficiary rights* were ¥1,843mn (down ¥50mn YoY), revenue from property sales was ¥470mn (down ¥50mn), and rents were ¥190mn (down ¥30mn). Regarding real estate trust beneficiary rights, the book value was ¥1,533mn, so the contribution to profit was around ¥300mn. In addition, with regard to ownership of leaseback properties as of the end of 1H FY5/22, liquidation resulted in reducing the number of properties owned by 35 compared to the end of FY5/21 to 352, and the value of properties owned declined by ¥800mn to ¥4.5bn. However, the number of properties purchased is steadily increasing, rising by 14% from the end of FY5/22. Going forward, the Company's strategy is to raise capital efficiency, strengthen the financial structure and make the Leaseback Business a stable earnings base through aggressive property purchases and moving items off the balance sheet through liquidation.

* In August 2021, the Company transferred the trust beneficiary rights of 88 leaseback properties to LLC Ambai LB No.2 and made them off-balance.

Increase in total assets from aggressive purchasing

3. Financial conditions and management indicators

Total assets at the end of 1H FY5/22 increased ¥1,980mn from the end of FY5/21 to ¥38,276mn. Looking at the main change factors, in current assets, cash and deposits decreased ¥2,180mn, but inventories increased ¥5,379mn. Looking at the breakdown of inventories, regular properties increased ¥2.4bn to ¥11.0bn and rental properties increased ¥2.9bn to ¥7.7bn. By contrast, in fixed assets, long-term revenue properties declined ¥1.0bn to ¥12.6bn as a result of transfers to current assets. The total of revenue real estate properties increased ¥4.3bn from the end of FY5/21 to ¥31.3bn.

Total liabilities decreased ¥1,876mn from the end of the previous period to ¥26,586mn. Income taxes payable decreased ¥673mn and investment deposits from anonymous partnerships declined ¥259mn, while interest-bearing liabilities increased ¥3,143mn. Also, total net assets increased ¥103mn from the end of the previous period to ¥11,689mn. This was mainly because although expenditure on dividends was ¥205mn, assets increased by ¥66mn through the disposal of treasury stock in addition to the recording of profit attributable to owners of parent of ¥242mn.

Looking at management indicators, owing to an increase in the balance of interest-bearing liabilities, the capital ratio fell from 31.9% at the end of FY5/21 to 30.5%, and the interest-bearing debt ratio increased from 179.2% to 204.4%. With regard to interest-bearing debt, it is a means of procuring funds for business expansion, but recently the Company has been working to diversifying its financing, including through the use of crowdfunding, and it intends also to raise asset efficiency by further developing the Solutions Business, including the Leaseback Business. Given this, over the medium- to long-term, its financial structure is also expected to improve.

Consolidated balance sheet

(¥mn)

	FY5/19	FY5/20	FY5/21	1H FY5/22	YoY change
Current Assets	25,101	28,327	20,559	23,932	3,373
(Cash and Deposits)	5,500	4,947	6,215	4,034	-2,180
(Inventories)	18,648	22,918	13,642	19,022	5,379
Non-current Assets	11,654	10,269	15,736	14,343	-1,393
Total Assets	36,756	38,596	36,296	38,276	1,980
Current Liabilities	14,863	17,698	15,610	15,578	-32
Non-current Liabilities	11,229	10,262	9,098	11,007	1,908
Total Liabilities	26,093	27,961	24,709	26,586	1,876
(Interest-bearing Liabilities)	23,879	24,924	20,750	23,894	3,143
Total Net Assets	10,663	10,635	11,586	11,689	103
(Security)					
Capital Ratio	29.0%	27.5%	31.9%	30.5%	-1.4pt
Interest-bearing Debt Ratio	224.3%	234.7%	179.1%	204.4%	25.3pt

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

Outlook

FY5/22 results outlook: net sales may fall short, but profits expected to meet initial forecasts

1. Outlook for FY5/22

In the outlook for FY5/22 consolidated results, the Company is maintaining its initial forecasts of net sales to increase 5.3% YoY to ¥43,234mn, operating profit to decrease 40.9% to ¥1,283mn, ordinary profit to decrease 47.9% to ¥1,004mn, and profit attributable to owners of parent to decrease 38.9% to ¥689mn. Regarding net sales, achieving the initial plan for renovated condominiums of 1,400 units sold appears unlikely, so there is a possibility that net sales will fall short of the forecast. However, on the profit side, FISCO believes that forecasts will be achieved as a result of improvement to the gross profit margin and reductions to SG&A expenses.

Regarding SG&A expenses, the Company, primarily, was expecting an increase in personnel expenses of ¥140mn and an increase in upfront investment costs related to new businesses and products of ¥280mn, but the increase in personnel expenses is expected to be limited because of the strong likelihood that fewer new employees will be added than initially planned (increase of 46 employees). On the other hand, regarding expenses related to new businesses and products, the Company plans to invest aggressively in the second half. The expected year-on-year decline in profits is mainly due to the lack of a gain on sale of profitable real estate properties, which was recorded in 2H FY5/21, and to an increase in SG&A expenses.

Outlook for FY5/22

(¥mn)

	FY5/21		FY5/22				
	Full fiscal year (result)	% of sales	1H (result)	2H (balance)	Full fiscal year (forecast)	% of sales	YoY
Net Sales	41,074	-	17,089	26,144	43,234	-	5.3%
Gross profit	6,991	17.0%	2,926	3,626	6,553	15.2%	-6.3%
SG&A expenses	4,820	11.7%	2,365	2,903	5,269	12.2%	9.3%
Operating profit	2,170	5.3%	560	722	1,283	3.0%	-40.9%
Ordinary profit	1,926	4.7%	400	603	1,004	2.3%	-47.9%
Profit attributable to owners of parent	1,127	2.7%	242	446	689	1.6%	-38.9%
Earnings per share (EPS) (¥)	131.88	-	28.19	51.63	79.82	-	-

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

Results outlook by business

(¥mn)

	FY5/21		FY5/22				
	Full fiscal year (result)	% of sales	1H (result)	2H (balance)	Full fiscal year (forecast)	% of sales	YoY
Property Sales	38,422	93.5%	15,668	24,664	40,332	93.3%	5.0%
Renovated Condominiums	31,299	76.2%	12,773	18,507	31,280	72.4%	-0.1%
Other Real Estate	7,122	17.3%	2,895	6,156	9,052	20.9%	27.1%
Property Sales	1,058	2.6%	561	372	933	2.2%	-11.8%
Other income	1,592	3.9%	859	1,109	1,968	4.6%	23.5%
(Renovation work)	1,307	3.2%	740	780	1,520	3.5%	16.3%
Total net sales	41,074	100.0%	17,089	26,145	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 units sold is projected to decline 1.4% YoY to 1,400 units and the sales amount is expected to stay around the same level as last year, edging down 0.1% to ¥31,280mn. However, as stated previously, the 569 units sold in 1H FY5/22 fell short of the forecast by 97 units, and though the number of units sold in 2H will be higher in connection in with increased purchased, with reference to past trends, etc., FISCO believes units sold for the full year will be around 1,250 to 1,300 units. Supposing the average sales price is at the same level in 2H, sales figure to be ¥28.3-29.5bn, a YoY decline of 6-10%.

Also, the gross profit margin in 1H was 16.0%, a high level even compared to the past, so it is possible that it will decline slightly in 2H. However, even if the level is around 14-15% in 2H, gross profit is expected to increase by around ¥300-400mn compared to 1H. Demand remains rampant and good sales conditions are expected to continue, but there is a risk of construction material procurement delays and price rises caused by the re-spread of COVID-19. This risk has not materialized as of the present, but if procurement times slow construction periods will be prolonged and it could have an impact on the number of units sold. Regarding any rises in material prices, the Company believes they will be within a range that allows them to be absorbed by adjusting condominium sales prices.

In order to strengthen its purchase and sales system, the Company newly established the Partner Business Department. Previously, in a majority of cases, the Company would screen properties based on sales information from real estate brokers, purchase units and then after renovations sell them through real estate sales companies, but when going through brokers, a brokerage fee of around 3% is incurred on each property sold, so the cost burden is large on both sellers and buyers, which was an issue. Purchasing and selling directly does not incur these brokerage fees. In addition, cases have increased in which suppliers are selling the condominiums themselves, so purchasing power is less than it was in the past, and the Company's aim is to reinforce its purchasing system. Regarding direct sales, the Company operates the FLIE platform for direct sales by sellers through its subsidiary Flie, Co., Ltd., which was established in 2019, and sales will also be made using this platform.

(2) Property sales of other real estate

Properties sold in the Solutions Business is forecast to increase 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, 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 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, due to an increase in the number of sales including those from transferring real estate trust beneficiary rights.

(3) Rents and other income

Alongside the decrease in properties owned, the outlook is that rents will decrease 11.8% YoY to ¥933mn. Conversely, other income is forecast to increase 23.5% to ¥1,968mn. Within this, sales in the Renovation Business is projected to recover and rise 16.3% to ¥1,520mn due to the increases in orders from corporations and individuals. At the same time, in the hotel and accommodation business, the Company was planning on an increased occupancy rate at LANDABOUT, which opened in 2020, improved earnings from acquiring montan HAKATA following the redemption of Asset Sharing Hakata, but occupancy rates have been slow to recover due to the prolongation of the pandemic, so forecasts are not expected to be met. 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.

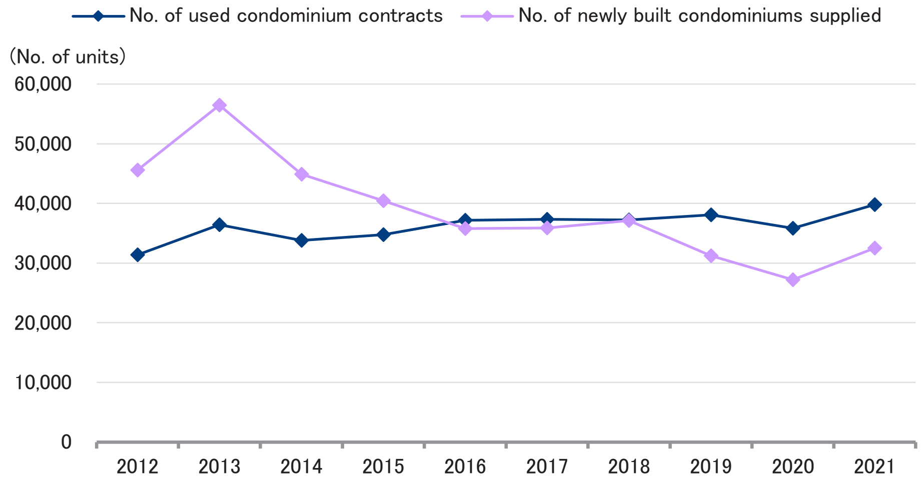
The leading role in the condominium market is changing from being the newly built market to the used market, and the outlook is that renovated condominiums will steadily increase in the future

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

Looking at 2021 condominium sales trends in the Tokyo metropolitan area, used condominiums increased 11.1% YoY to 39,812 units, setting a record high, and new condominiums also reversed the previous trend, rising 19.4% to 32,500 units. Used condominiums have outstripped new condominiums for six consecutive years since 2016, and the position of used condominiums in the condominium market has been increasing year after year. In 2022 as well, new condominiums are projected to continue to increase at a pace of 34,000 units, but the used condominium market is also expected to continue to increase against a backdrop of rising stocks and the increasing popularity of renovated condominiums owing to renovations nearly equivalent to new units and also warranty system enhancements*.

* 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).

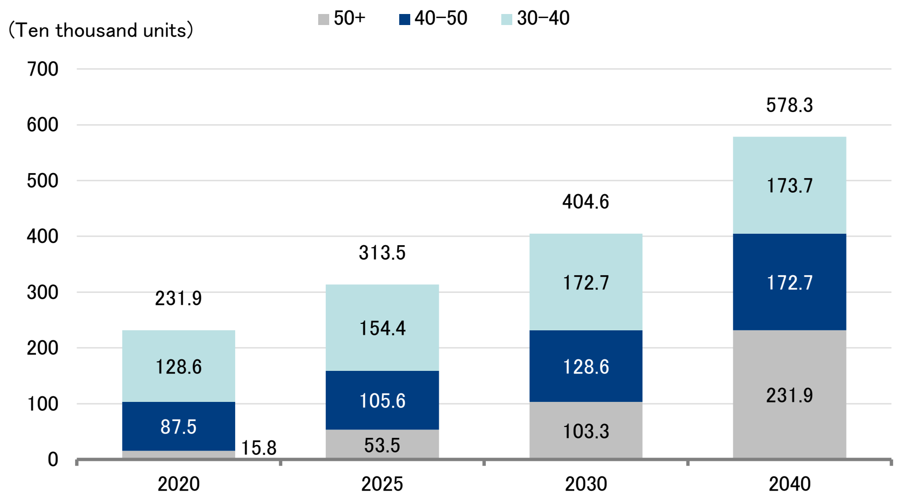
Condominium market trends in metropolitan Tokyo area



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 work, at FISCO we think that it still has plenty of room to grow when viewed from a medium- to long-term perspective.

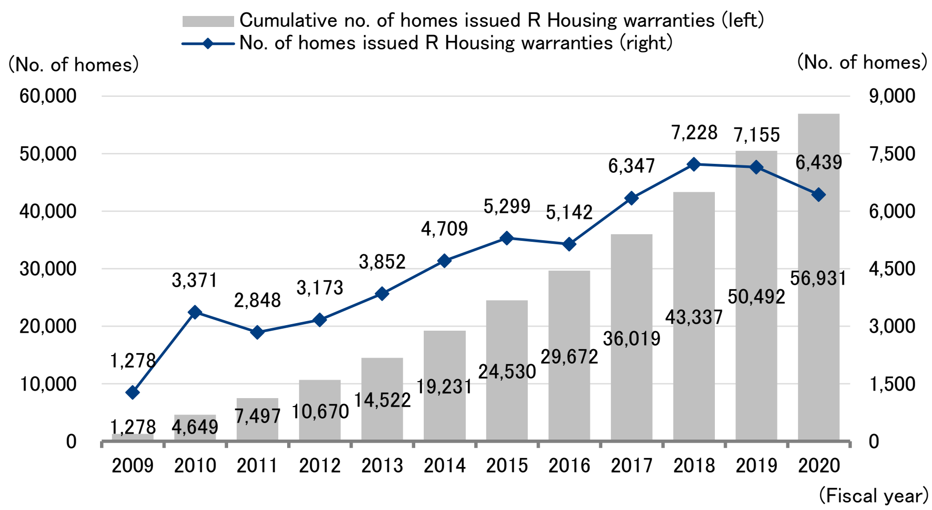
Estimated number of condominium units in stock by building age



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 FY2020, 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

Targeting operating profit of ¥3.2bn in FY5/27 by increasing sales of the ECOCUBE energy-saving renovation product as a differentiation product

3. Initiatives for conformance with continued Prime Market listing criteria

(1) Basic policy for conformance with continued listing criteria

The Company chose to list on the Prime Market after the Tokyo Stock Exchange restructures its market divisions, which is scheduled for April 2022. The status of the Company's conformance with continued listing criteria for the Prime Market as of the transfer record date (June 30, 2021) is as follows. It cleared the standards for number of tradeable shares, tradeable share ratio, and average daily trading value, but its tradeable shares market cap is ¥3.593bn, below the required level of ¥10.0bn. The Company therefore submitted a plan for meeting the continued listing criteria (with a plan period to FY5/27) to the TSE in December 2021.

Conformance with Prime Market's continued listing criteria

	Number of tradeable shares	Tradeable shares market cap	Tradeable share ratio	Average daily trading value
As of transition period preparation	46,151 unit	¥3.593bn	51.6%	¥22mn
Continued listing criteria	20,000 unit	¥10bn	35%	¥20mn
Conformance status	○	×	○	○

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

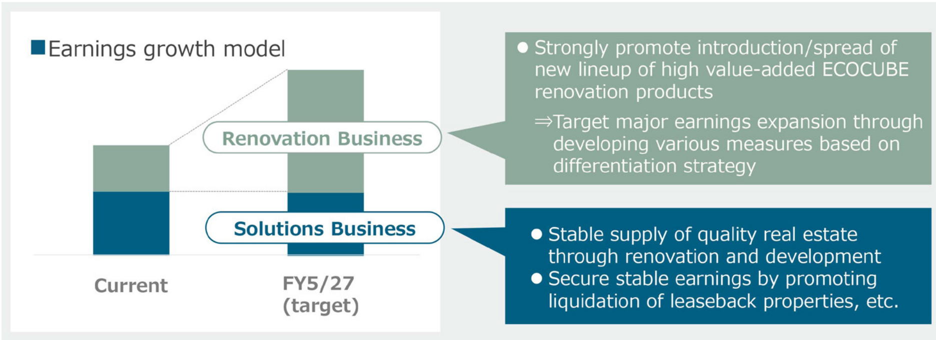
The Company has given the following three points as its basic policy for tradeable share market cap of ¥10.0bn.

a) Improve results in line with medium-term management plan and plan for conformance with new market division continued listing criteria

The Company plans to announce a medium-term management plan in July 2022 in line with its plan for conformance with new market division continued listing criteria. In the plan, the Company will target sustained earnings growth by building a stable business portfolio through adding to its existing businesses new business areas that are less impacted by real estate market conditions. For quantitative numerical targets, the Company set FY5/27 targets of ordinary profit of ¥3.2bn, profit attributable to owners of parent of ¥2.2bn, and net assets of ¥17.5bn. Compared to FY5/21 results, this represents 1.7 times higher ordinary profit and 2 times higher profit attributable to owners of parent and net assets.

The Company intends to build a stable earnings base in the Solutions Business, which includes the leaseback and asset sharing businesses, and work for earnings growth with the Solutions Business as its growth driver. The growth strategy for the Renovation Business involves actively promoting the spread and sale of ECOCUBE, an energy-saving renovation product launched in 2021, to differentiate itself from competitors and achieve major earnings growth.

Company's growth model via differentiate strategy



Source: The Company's results briefing materials

If its earnings target is achieved, the possibility also goes up that the Company's tradeable shares market cap will also clear ¥10.0bn. This is because assuming a P/E ratio of 9, which is the Company's average for the past five years to FY5/21, its tradeable shares market cap, converted based on profit attributable to owners of parent in FY5/27, will be ¥10.2bn*1. Also, looking at its P/B ratio (ratio of net assets per share), it is currently 0.45, which is a valuation below the liquidation value. The real estate sector average on the TSE First Section is 1.2, and Star Mica Holdings <2975>, which is involved in renovated condominiums and has nearly the same level of net sales, has a P/B ratio of 1.1, so considering this, there is no denying the Company's valuation is insufficient. One factor for this, in FISCO's view, is that the Company's results over the past several years have stagnated due to intensified competition in the renovated condominium market. If net assets increase to ¥17.5bn in FY5/27 and the Company is valued at a P/B ratio of around 1.1, its tradeable shares market cap will be ¥9.9bn*2. In either case, getting results back into a growth phase, FISCO believes, will lead to corrections in P/E and P/B ratio levels, which are currently relatively low.

*1 9.0 × 2.2bn × 51.6% = ¥10.2bn. If the valuation rises to 16.3, the average P/E ratio of the real estate sector on the TSE First Section as of December 2021, it becomes ¥18.5bn.
*2 1.1 × ¥17.5bn × 51.6% = ¥9.9bn. If the valuation rises to 1.2, the average P/B ratio of the real estate sector on the TSE First Section as of December 2021, it becomes ¥10.8bn.

b) Enhance corporate governance

The Company is positioning the reinforcement of corporate governance as a key management issue in order sustain growth and raise corporate value over the medium to long term. In particular, it plans to work toward active application of the Corporate Governance Code, which was revised in June 2021, centering on the general principles applicable to the Prime Market.

Content of revised Corporate Governance Code applicable exclusively to the Prime Market

Content	Company's response
Use of electronic voting rights exercise platform for institutional investors	Targeting introduction while verifying increases in institutional investors as a percentage of shareholders
Disclosure and provision of necessary information in English from among disclosure documents	Provided English versions of the convocation notice for annual general meetings of shareholders, summary of business results, results summaries, etc.
Qualitative and quantitative disclosure enhancements for disclosure equivalent to TCFD* on the impact of climate change-related risks and earnings opportunities on your company	Working to develop system for disclosure via TCFD, etc. on sustainability
Full-time appointment of independent outside directors as at least one-third of directors	Appointments completed; one-third of directors (three out of nine) are independent outside directors
Establishment of nomination and remuneration committee with independent outside directors as the majority and disclosure of approach, authorization, roles, etc. related the independence of its composition	Established nomination and remuneration committee, disclosed information on approach, authorization, roles, etc. related to its independence

* TCFD: Task Force on Climate-Related Financial Disclosures
Source: Prepared by FISCO from the Company's results briefing materials

c) Strengthen IR activities

With announcement of its five-year medium-term management plan, which will start in FY5/23, the Company will work to actively provide IR information and communicate with investors from a medium- to long-term perspective in order to promote recognition, understanding, agreement, and investment opportunities with respect to the Company. Also, the Company plans to actively develop various IR initiatives directed at not only institutional investors but also individual investors, including briefings and media exposure, and also to raise awareness of itself as a company that contributes to a sustainable society and thereby appeal to ESG investors.

(2) The ECOCUBE energy-saving renovation product

In order to achieve earnings growth going forward, the Company intends to robustly promote a differentiation and high added-value strategy via the ECOCUBE 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 and heat exchangers. Its development and sales started in 2011 and then it was re-released in July 2021 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 about 25% 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-¥3mn higher depending on the system composition. However, regarding energy-saving renovated housing, government subsidies are available*, electricity charge reductions can be expected, and there are positive effects for health as well, so a key point is whether or not based on this the Company will be able to promote the product to buyers with the price difference as added value. If sales of ECOCUBE increase, the Company believes this will contribute to raising the average sales price and gross profit margin of renovated condominiums.

* 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 half 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.

ECOCUBE features

Features	Content
Pleasant air	Type 1 heat-exchange-type ventilating equipment with embedded air filters that remove pollen, dust and other particles constantly and efficiently provide fresh air.
Good for health	Studies have shown that highly insulated houses with an indoor temperature above a certain level can help prevent heat shock and high blood pressure.
Reduced condensation	Increasing the level of insulation with insulating materials and vinyl sashes reduces indoor temperature differences and reduces condensation to limit the occurrence of mold.
Energy-saving and economic	Air conditioning efficiency is increased by raising airtightness and insulation levels with vinyl sashes and insulating materials based on heat calculations and also installing type 1 heat-exchanger-type ventilation equipment for taking in outside air close to the indoor temperature. This can reduce heating and cooling costs compared to before the renovation.
CO_2 reduction	Increased insulation performance to reduce heating and cooling energy consumption and thereby contribute to CO_2 reduction.

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

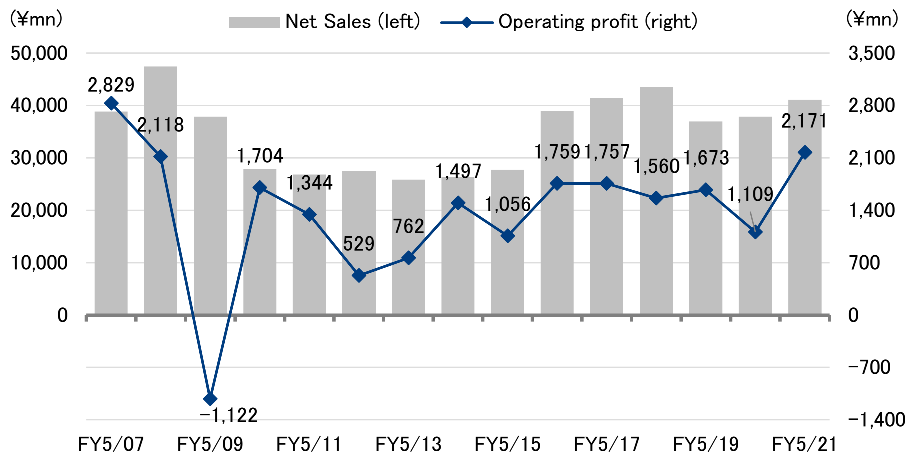
The FY5/22 sales target is 200 units (not incorporated into results plans), and as of January 15, 2022 progress was construction of 96 units and sales of 13 units. To further popularize and increase sales of ECOCUBE, going forward the Company is planning to actively conduct a branding strategy (including television ads) and to promote development on the sales side, including alliances and M&A. In December 2021, the Company received a special commendation (for contribution to the promotion of energy-saving renovation) at the 2021 Renovation of the Year awards sponsored by the Renovation Council, so the Company is being increasingly recognized, and its developments going forward will draw attention.

(3) Medium-term vision

The Company vision is to “Create rich lives for everybody through renovation.” It has set the policy of aiming for earnings 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.

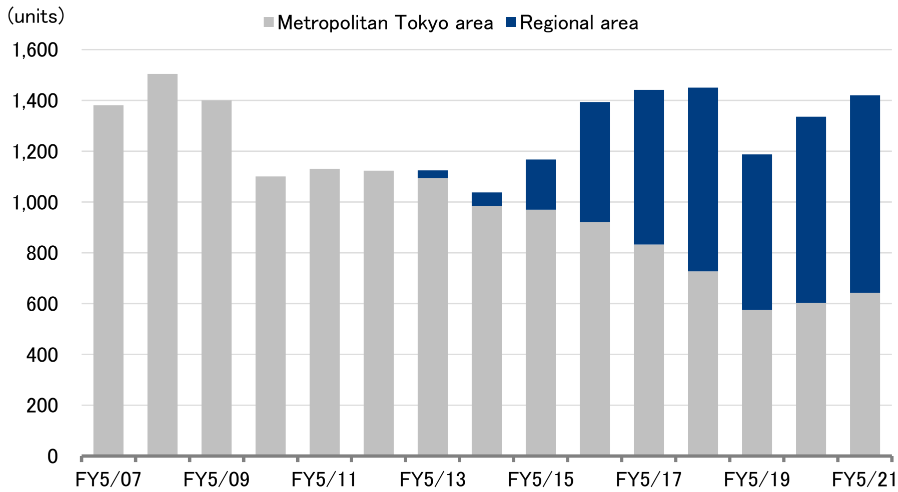
Looking at the Company’s results trends, its record-high net sales is ¥47,448mn from FY5/08 and its record-high operating profit is ¥2,829mn from FY5/07. After this, results have generally stagnated, though with some ups and downs. The main factor is the continuing decrease in units sold in the Tokyo metropolitan area due to intensifying competition in the renovated condominium market. This suggest that the Company has maintained its results level since FY5/13 by offsetting the sales decline in the Tokyo metro area through expansion into regional areas.

Long-term results trends



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

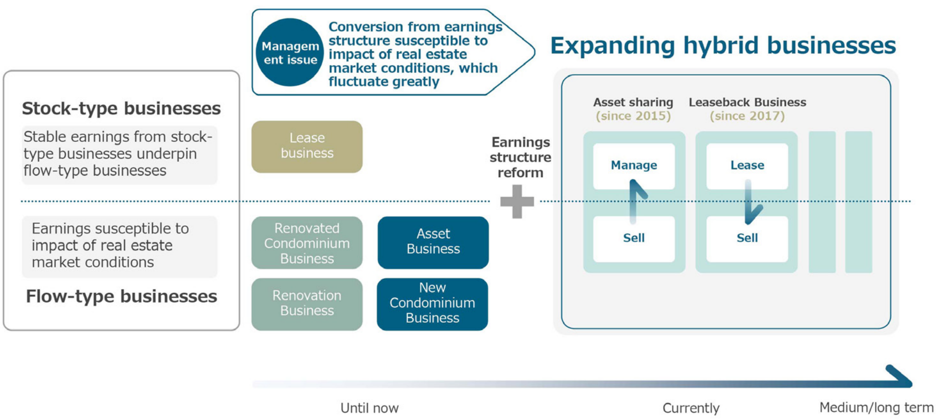
No. of renovated condominium sales



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

As discussed above, going forward, by strengthening its purchasing and sales system and promoting sales of ECOCUBE as a differentiation product, the Company is targeting regrowth in the Renovation Business. Also, by expanding hybrid businesses (businesses that combine flow-and stock-type business models), such as the Leaseback Business and Asset Sharing Business, the Company's strategy is to work to convert away from an earnings structure susceptible to the impact of real estate market conditions and pursue stable, sustained growth. Specific business strategies and numerical management targets will be provided in the medium-term management plan scheduled to be announced in July 2022, but, in FISCO's view, the key to the Company's growth will be how much it will be able to promote and increase sales of ECOCUBE, its strategic product.

Model for solving earnings structure issues



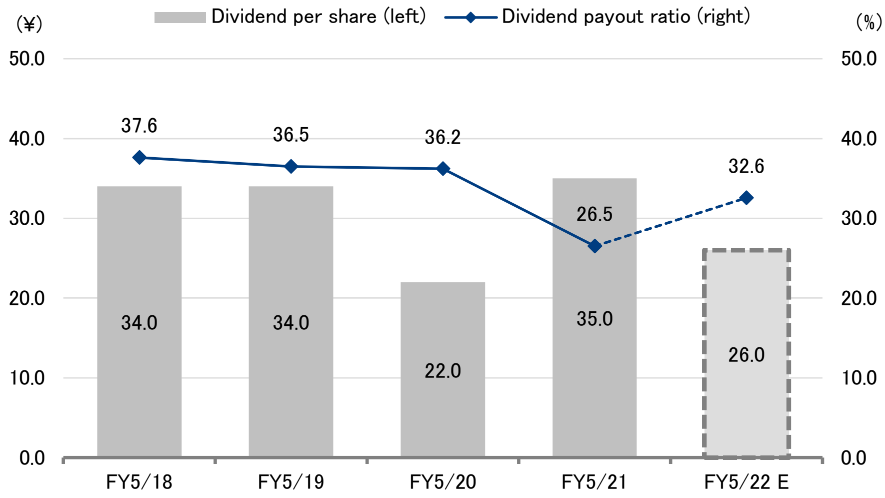
Source: The Company's results briefing materials

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, 32.6%).

Dividend per share and dividend payout



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

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■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp