

Mirainovate Co., Ltd.

3528

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■ Index

■ Summary	01
1. 1H FY3/22 consolidated results	01
2. FY3/22 forecasts	02
3. Business developments going forward	02
■ Company profile	03
■ Business overview	04
1. Main business activities	04
2. Business features	05
■ Results trends	06
1. 1H FY3/22 results	06
2. Conditions by segment	07
3. Financial position	08
4. Cash flow conditions	09
■ Outlook	10
1. FY3/22 forecasts	10
2. Progress made for new businesses	11
■ Shareholder return policy	12

Summary

Advancing business development after consolidating operations into the three business pillars of the real estate business, renewable energy business, and investment business

The origins of Mirainovate Co., Ltd. <3528> (hereafter, also “the Company”) are found in Inami Kigyo Co., Ltd., which conducted a textile business. However, the Company withdrew from the textile business in 1994 and changed its main business to a real estate business (primarily sales of condominiums). After that, the Company was temporarily a member of the DAIKYO INCORPORATED Group, which is a major condominium developer. It left that group and started independent management in 2007. Mr. Curtis Freeze, the owner and president of the former Prospect Co., Ltd., which had invested in the Company as a fund, was appointed as the representative director and president in 2010. Since then, it has used M&A to expand its business domains, including to launch a construction business and custom-built homes business, and by 2019, it was engaged in a wide range of businesses, such as real estate sales (condominium sales, land and buildings, and custom-built homes), asset management, construction, and renewable energy including solar power generation. In 2019, it withdrew from the construction business and asset management business. Furthermore, in FY3/21, the Company reshuffled its executive team and consolidated its operations into three business segments –the real estate business, renewable energy business, and investment business.

1. 1H FY3/22 consolidated results

In the 1H FY3/22 consolidated results, sales were ¥3,833mn (up 30.7% year on year (YoY)), operating profit was ¥374mn (compared to a loss of ¥606mn in the same period in the previous fiscal year), ordinary profit was ¥540mn (a loss of ¥669mn), and net profit attributable to owners of the parent was ¥1,097mn (a loss of ¥2,829mn). A point worthy of note in the 1H FY3/22 results is the recording of operating profit for the main businesses that are different than in the last few years. By segment, the real estate business recorded profit of ¥598mn (a loss of ¥477mn in the same period in the previous fiscal year) and the renewable energy business marked profit of ¥319mn (up 7.4% YoY), but the investment business recorded an operating loss of ¥249mn (no result in the same period in the previous fiscal year) due to a fall in the market value of securities held. Moreover, a gain on the sale of the Narita Kanzaki Project of ¥645mn was recorded as extraordinary profit, and net profit attributable to owners of the parent improved greatly to ¥1,097mn. The Company has also made progress in optimizing its balance sheet as it has been reviewing its businesses and assets.

Summary

2. FY3/22 forecasts

For the FY3/22 consolidated results, the Company is forecasting sales of ¥7,701mn (down 26.7% YoY), operating profit of ¥177mn (a loss of ¥395mn in the previous period), ordinary profit of ¥231mn (a loss of ¥586mn), and net profit attributable to owners of the parent of ¥821mn (profit of ¥55mn). On the one hand, it will continue to expand the earnings foundation of the existing businesses, while on the other hand, it will aim to further grow results by proactively conducting M&A. The forecast is for sales to decline due to the small amount of inventory on hand in condominiums for sale in the mainstay real estate business and the expected decline in sales in the renewable energy business resulting from the sale of the Narita Kanzaki Project. As before, there are uncertain elements, including the impacts of the novel coronavirus pandemic (hereafter, the COVID-19 pandemic), the climate on the renewable energy business, and future conditions in the investment business (such as stock price trends). Even so, the Company is forecasting operating profit of ¥177mn for the full fiscal year. This forecast includes the expected recording of a loss in 2H and can be said to be a fairly cautious one. So it is possible that the forecasts will be upwardly revised, depending on COVID-19 conditions, the climate, and stock market trends in the future. The Company's policy is also to continue to work on optimizing the balance sheet and we will be greatly focusing on this point.

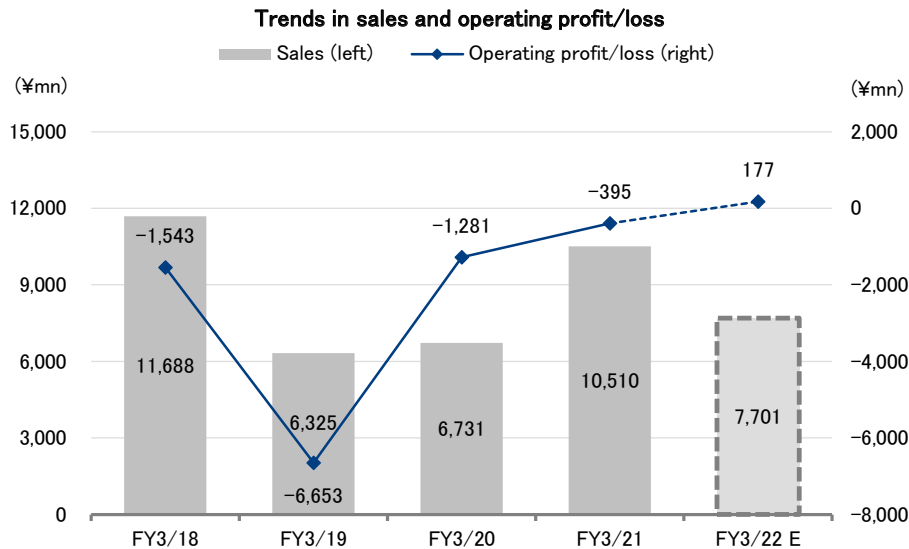
3. Business developments going forward

As previously reported, the Company's main executive team was replaced in June 2020, and has since been conducting business while consolidating its business domains into three business domains: real estate business, renewable energy business, and investment business. In conjunction with this, it changed its company name to Mirainovate Co., Ltd. (effective July 1, 2021), reduced capital (effective August 1, 2021), and carried out a 10-for-1 share merger (effective October 1, 2021). At the same time, it has been conducting proactive management, including selling excess assets and progressing the optimization of the balance sheet, and the results of these efforts have already started to appear. It intends to continue this policy in the future as well, so we shall be focusing on the advances made toward these structural reforms. For the medium-term management plan, the Company comprehensively considered elements such as the Group reorganization, market trends in each business, and the impact of the COVID-19 pandemic. As a result, there were many undeterminable elements to formulate numerical targets, thus targets were established for single fiscal years only. The Company plans to announce it again once the impact of the COVID-19 pandemic has settled down and conditions are such that disclosure is possible.

Key Points

- Consolidated its business segments into three segments— real estate business, renewable energy business and investment business
- In 1H FY3/22, recorded operating profit for the main businesses
- Going forward, is focusing on achieving operating profit and plans to further progress the optimization of the balance sheet

Summary



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

Company profile

Currently focused on the real estate business, renewable energy business and investment business

The Company has a long history and its predecessor, Inami Kigyo Co., Ltd., was founded in Toyama Prefecture in 1937. It subsequently changed its corporate name to Carolina Co., Ltd. in 1961, and was listed on the Tokyo Stock Exchange Second Section in 1962. On entering the 1990s, it withdrew from the textile business and shifted to its mainstay business of condominium sales, and at the same time, joined the DAIKYO Group, which is a major condominium developer.

After that, it left the DAIKYO Group in 2007 and started independent management. In 2010, Mr. Curtis Freeze, who was the owner, president and fund manager of the former Prospect, which had invested in the Company as a fund, was appointed as the representative director and president. In 2013, it made a wholly owned subsidiary of former Prospect through an exchange of shares. In 2014, it merged with this former company through an absorption merger, and at the same time, it changed its corporate name to the current name of Prospect Co., Ltd. During this period, it diversified its business through conducting M&As to make consolidated subsidiaries of Sasaki House Co., Ltd. and Kidoh Construction Co., Ltd., and then launched a solar business (renewable energy business) in 2015. Moreover, it made The Prospect Japan Fund (TPJF) a subsidiary through an exchange of shares in July 2017, and then sold all of its Kidoh Construction shares in March 2019 and dissolved and liquidated TPJF in December 2019. Through these measures, it withdrew from the construction business and asset management business. In September 2020, the Company made Gro-Bels Co., Ltd. (formerly Keynote Co., Ltd.) a consolidated subsidiary through a share exchange. Gro-Bels engages in real estate-related and commercial facility construction business.

Company profile

The Company's main executive team was replaced following a resolution of an extraordinary general meeting of shareholders in June 2020. Currently, the three executives who are primarily responsible for the Company's management are the Chairman of the Board of Directors Nobuyoshi Fujisawa; CEO, President, and Representative Director Nobuhiko Izumi; and Director Hiroshi Nishimura. Moreover, in June 2021, the Company changed its trade name to Mirainovate Co., Ltd., and is progressing corporate reforms, including conducting a share merger and a capital reduction.

History

Year	Major event
1937	Inami Kigyo Co. Ltd., was established in Toyama Prefecture
1961	Changed corporate name to Carolina Co., Ltd.
1962	Listed on the Second Section of Tokyo Stock Exchange
1990	Changed how the name was written in Japanese
1991	Entered an alliance with the DAIKYO INCORPORATED <8840> Group
1993	Began sales of the Morris condominium series (Series No.1 Morris Kawasaki)
1994	Withdrew from the textiles business
1994	Moved head office from Toyama Prefecture to Shibuya Ward, Tokyo
2000	Moved head office to its current location (1-30-8 Sendagaya, Shibuya Ward, Tokyo)
2001	Changed corporate name to Gro-Bels Co., Ltd.
2007	Left the DAIKYO Group and began independent management
2010	Mr. Curtis Freeze was appointed representative director and president
2012	Acquired all the shares and made a consolidated subsidiary of Sasaki House Co., Ltd.
2013	Acquired all the shares and made a consolidated subsidiary of (former) Prospect Co., Ltd.
2013	Entered into the overseas real estate-related business
2014	Acquired all the shares and made a consolidated subsidiary of Kidoh Construction Co., Ltd.
2014	Conducted an absorption merger with a subsidiary, former Prospect, and changed its corporate name to Prospect Co., Ltd.
2015	Launched the solar power generation business (the first project: Asago Tachiwaki Solar Power Plant)
2017	Acquired all the shares and made a subsidiary of The Prospect Japan Fund through an exchange of shares
2018	Mr. Masato Tabata was appointed representative director and president
2019	Sold all shares of Kidoh Construction Co., Ltd. Dissolved and liquidated The Prospect Japan Fund
2020	Acquired all the shares and made a consolidated subsidiary of Gro-Bels Co., Ltd. (formerly Keynote Co., Ltd.) Mr. Nobuhiko Izumi was appointed representative director, president and CEO
2021	Changed company name (trade name) to Mirainovate Co., Ltd. Carried out a share merger and reduction of investment capital

Source: Prepared by FISCO from the Company's website

Business overview

Has consolidated businesses into the three main businesses and is progressing reforms

1. Main business activities

Up until FY3/20, the Company disclosed information on business segments grouped as the real estate sales business, asset management business, renewable energy business, and others, but from FY3/21, the Company consolidated its operations under the three segments of the real estate business, renewable energy business, and investment business.

Business overview

(1) Real estate business (% of total ratio to sales in 1H FY3/22: 90.7%)

The real estate business encompasses disparate operations consolidated into this single segment. It consists of the following components from prior to the segment consolidation: 1) condominium sales (business that involves purchasing land then constructing and selling condominium units, similar to general condominium developers), 2) land and buildings (business that involves selling residential land, detached housing, and buildings, and business that mainly involves selling land and buildings that accompany sales of condominiums), and 3) custom-built homes (construction outsourcing, renovation work, etc. with respect to detached housing). This includes detached housing planning and sales; design and construction of restaurants, amusement facilities and other commercial facilities; and leasing of the Company's own real estate, all of which Gro-Bels Co., Ltd., which the Company made a consolidated subsidiary in September 2020, was previously engaged in.

(2) Renewable energy business (ratio to sales in 1H FY3/22: 15.7%)

The business model is that the Company acquires rights to solar power generation, etc., conducts investment and development, and sells the generated electricity to power companies. On one hand, it acquires rights, conducts investment, and collects revenue (cash flow), while on the other hand, it calculates the return on the investment and sells the equipment itself. This approach can be said to be the same as that for the rental building business. As of the end of FY3/22 1H, it had nine operational plants with two other projects solely involving investment, of which only investments were made in two plants, bringing the Company's total power generation capacity to 45.45MW. In Russia also, a plant to manufacture wood pellets for biomass power generation was completed in February 2020 and a long-term contract was concluded with ENGIE ENERGY MANAGEMENT SCRL (hereafter, ENGIE EM) of France for a minimum of 12 years.

(3) Investment business (ratio to sales in 1H FY3/22: -6.5%)

This business, started in February 2021, involves investment in securities (stocks, etc.) and real estate.

2. Business features

As previously stated, it seems at first glance that the Company is developing businesses in different fields, namely condominium sales and renewable energy business. Actually, they are fundamentally based on the same approach to purchase land, rights, and projects (purchases or investments); invest in them (capital injections and renovations); and subsequently collect the revenue (cash flow or gain on resale). This point can be said to be a feature of the Company's business development.

In line with this approach, the Company is currently engaged in the real estate business, renewable energy business, and investment business. Going forward, if other businesses aligned with this approach emerge, the Company plans to proactively develop them, including through M&A activity.

Results trends

In 1H FY3/22, recorded operating profit of ¥374mn

1. 1H FY3/22 results

In the 1H FY3/22 consolidated results, sales were ¥3,833mn (up 30.7% YoY), operating profit was ¥374mn (compared to a loss of ¥606mn in 1H FY3/21), ordinary profit was ¥540mn (a loss of ¥669mn), and net profit attributable to owners of the parent was ¥1,097mn (a loss of ¥2,829mn).

What is noteworthy in the 1H FY3/22 results is that the company recorded a profit in operating profit/loss, indicating the profits from its main business. In the last few years, a pattern of compensating for operating loss with non-operating profit and extraordinary profit has continued. Nevertheless, the main businesses recorded an operating profit in 1H FY3/22. This can be said to be the result of the replacement of the executive team in June 2020 and progress made in consolidating the businesses and optimizing the balance sheet.

By segment, the real estate business and renewable energy business recorded operating profit, but the investment business recorded an operating loss due to a valuation loss following a fall in the market value of securities held. Due to factors such as recording equity-method investment income of ¥7mn (a loss of ¥180mn in the same period in the previous fiscal year) under non-operating income, ordinary profit was higher than operating profit. Moreover, extraordinary profit of ¥645mn was recorded as a gain on the sale of the Narita Kanzaki Project, so net profit attributable to owners of the parent improved significantly to ¥1,097mn.

1H FY3/22 results

	1H FY3/21		1H FY3/22		Change	
	Result	Ratio to sales	Result	Ratio to sales	Amount	Ratio
Sales	2,931	100.0%	3,833	100.0%	901	30.7%
Gross profit	334	11.4%	1,316	34.4%	982	293.6%
SG&A expenses	941	32.1%	942	24.6%	1	0.2%
Operating profit	-606	-	374	9.8%	980	-
Ordinary profit (loss)	-669	-	540	14.1%	1,209	-
Net profit attributable to owners of the parent	-2,829	-	1,097	28.6%	3,926	-

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

Results trends

2. Conditions by segment

1H FY3/22 results by segment

	1H FY3/21		1H FY3/22		Change	
	Result	Ratio to sales	Result	Ratio to sales	Amount	Ratio
	(¥mn)					
Sales	2,931	100.0%	3,833	100.0%	901	30.7%
Real estate business	2,176	74.2%	3,478	90.7%	1,302	59.8%
Renewable energy business	755	25.8%	603	15.7%	-152	-20.2%
Investment business	-	-	-248	-6.5%	-248	-
Operating profit (before amortization of goodwill)	-606	-	374	9.8%	980	-
Real estate business	-477	-	598	17.2%	1,075	-
Renewable energy business	297	41.1%	319	55.1%	22	6.8%
Investment business	-	-	-249	-	-249	-
Company-wide expenses	-426	-	-294	-	132	-

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

(1) Real estate business

As stated earlier, under the reporting segment changes that take effect from FY3/21, the Company has transformed the real estate business (condominium sales, land and buildings, and custom-built homes). This has involved consolidating the detached housing sales and commercial facility construction businesses operated by Gro-Bels, which became a wholly owned subsidiary through a share exchange, thereby combining it with the components of the prior real estate sales business (condominium sales, land and buildings, custom-built homes, and real estate leasing).

In 1H FY3/22, the main new contracts were 43 units worth ¥1,917mn in condominium sales (compared to 62 units worth ¥2,087mn in the same period in the previous fiscal year), 38 dwellings worth ¥959mn in custom-built homes (31 dwellings worth ¥805mn), and 1 dwelling worth ¥66mn in detached housing (no contracts in the same period in the previous fiscal year). There were no contracts in commercial facility construction. The main sales were sales of 32 units worth ¥1,532mn in condominium sales (40 units worth ¥1,332mn), 16 dwellings worth ¥946mn in custom-built homes (18 dwellings worth ¥693mn), and 2 dwellings worth ¥112mn in detached housing (no sales in the same period in the previous fiscal year). In commercial facility construction, sales were ¥44mn. In Other (building sales, sales of residential land for condominiums and detached houses, leasing of real estate owned by the Company, etc.), sales were ¥843mn (¥8mn). As a result of the above, sales in the real estate business in 1H FY3/22 were ¥3,478mn (up 59.8%) and segment profit was ¥598mn (a loss of ¥477mn in the same period in the previous fiscal year).

(2) Renewable energy business

This business is comprised of the solar power generation business in which electric power generated by solar power generation facilities managed by the Company or jointly with other entities is sold to electric power companies, as well as the biomass power generation-related business involving the production of wood pellets in Russia. Sales were ¥603mn (down 20.2% YoY) and segment profit was ¥319mn (up 7.4%). In the biomass power generation-related business, non-operating profit/loss (equity-method investment income/loss) contributed to results, but a point worthy of attention in 1H FY3/22 was that profit of ¥7mn (equity-method investment income) was recorded for the first time.

Results trends

At the end of 1H FY3/22, the Company had nine projects in operation (Kumamoto Yatsushiro Project, Rikuzentakata Project, Namegata Project, Wakayama Project, Sanmu Minami Project, Yorii Project, and Higashi Hiroshima Project). The Company's share of power generation at these projects is 45.45MW, with two of these projects solely involving investment. The Narita Kanzaki Project (power generation: 19.30MW) was sold in June 2021.

(3) Investment business

A valuation loss was recorded due to a fall in the market value of securities held, and sales were negative ¥248mn (no result in the same period in the previous fiscal year) and the segment loss was ¥249mn (same).

Making progress in optimizing the balance sheet

3. Financial position

At the end of 1H FY3/22, total assets were down ¥5,129mn compared to the end of the previous fiscal year to ¥29,900mn. Current assets increased ¥626mn to ¥21,262mn. Main factors included that cash and deposits decreased ¥2,464mn primarily due to acquisitions of investment securities, real estate for sale declined ¥471mn, real estate for sale in process increased ¥1,367mn, and other current assets rose ¥1,788mn, mainly resulting from an increase in loans to the biomass power generation-related business in Russia. Non-current assets declined ¥5,756mn to ¥8,638mn, primarily caused by a decrease of ¥7,128mn in property, plant and equipment following the sale of the Narita Kanzaki Project, and investments and other assets increased ¥1,396mn, mainly due to an increase in investment securities (¥1,725mn).

Total liabilities were down ¥6,632mn compared to the end of the previous fiscal year to ¥9,856mn, primarily because long-term borrowings, etc. decreased ¥6,263mn. Total net assets increased ¥1,502mn to ¥20,043mn. Main factors included that retained earnings increased ¥1,105mn due to the recording of net profit attributable to owners of the parent, and valuation difference on other available-for-sale securities increased ¥399mn. As a result of the above, it can be said that the Company is making steady progress in optimizing the balance sheet.

Results trends

Balance sheet

	(¥mn)		
	End of FY3/21	End of 1H FY3/22	Change
Cash and deposits	9,593	7,129	-2,464
Real estate for sale	7,044	6,573	-471
Real estate for sale in process	1,780	3,148	1,367
Other current assets	585	2,374	1,788
Total current assets	20,635	21,262	626
Property, plant and equipment	9,092	1,963	-7,128
Intangible fixed assets	612	588	-24
Total investments and other assets	4,689	6,085	1,396
Investment securities	222	1,947	1,725
Investments in capital	1,473	1,549	75
Long-term loans	2,541	2,347	-193
Total fixed assets	14,394	8,638	-5,756
Total assets	35,030	29,900	-5,129
Accrued construction payment	139	120	-19
Short-term borrowings, etc.	1,491	1,334	-157
Total current liabilities	2,642	2,139	-502
Long-term borrowings	14,083	7,819	-6,263
Total fixed liabilities	13,846	7,717	-6,129
Total liabilities	16,488	9,856	-6,632
Total net assets	18,541	20,043	1,502

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

At the end of 1H FY3/22, cash and deposits had increased YoY

4. Cash flow conditions

In 1H FY3/22, net cash used in operating activities was ¥2,434mn. The main income items included net profit before taxes, etc. of ¥1,192mn and depreciation of ¥181mn, while the main expenses included a gain on the sale of investments in capital of subsidiaries and associates of ¥645mn, an increase in accounts receivable of ¥109mn, an increase in operating investment securities of ¥481mn, an increase in inventories of ¥809mn, and other expenditure for deposits relating to real estate purchases of ¥1,257mn.

Net cash used in investing activities was ¥465mn. The main income items included a gain on the sale of property, plant and equipment of ¥222mn and proceeds from sale of investments in capital of subsidiaries and associates resulting in change in scope of consolidation of ¥892mn, while the main expenses were ¥1,094mn to acquire investment securities and ¥222mn as expenditure for loans.

Net cash provided by financing activities was ¥336mn. The main expenses included a decrease in long- and short-term borrowings and corporate bonds of ¥87mn, while the main income items included ¥555mn due to payments from silent partnership investors.

As a result, cash and cash equivalents during the period decreased ¥2,557mn, and cash and cash equivalents at the end of 1H FY3/22 were ¥6,853mn.

Results trends

Cash flow statements

	(¥mn)	
	1H FY3/21	1H FY3/22
Cash flows from operating activities	-221	-2,434
Net profit (loss) before taxes, etc.	-2,746	1,192
Depreciation	296	181
Loss (gain) on sales of investments in capital of subsidiaries and associates	-	-645
Decrease (increase) in trade receivables and contract receivables	-2	-109
Decrease (increase) in investment securities for sale	-	-481
Decrease (increase) in inventories	-320	-809
Others	247	-1,257
Cash flows from investing activities	2,261	-465
Proceeds from property, plant and equipment	70	222
Purchase of and proceeds from sales of investment securities	1,396	-1,094
Proceeds from purchase of shares of subsidiaries and associates resulting in change in scope of consolidation	825	-
Proceeds from sales of capital of subsidiaries resulting in change in scope of consolidation	-	892
Expenditure for loans	-	-222
Cash flows from financing activities	-2,746	336
Net increase (decrease) in loans and bonds	-2,304	-87
Dividends paid	-441	-0
Income (expenditure) due to proceeds of and payments for investments in silent partnerships	-	431
Net increase (decrease) in cash and cash equivalents	-710	-2,557
Cash and cash equivalents at end of period	4,290	6,853

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

■ Outlook

Forecasts ¥177mn in operating profit for FY3/22, but the result may exceed it

1. FY3/22 forecasts

For the FY3/22 consolidated results, the Company is forecasting sales of ¥7,701mn (down 26.7% YoY), operating profit of ¥177mn (a loss of ¥395mn in the previous period), ordinary profit of ¥231mn (a loss of ¥586mn), and net profit attributable to owners of the parent of ¥821mn (profit of ¥55mn). On the one hand, it will continue to expand the earnings foundation of the existing businesses, while on the other hand, it will aim to further grow results by proactively conducting M&A.

In the mainstay real estate business, the Company is forecasting a decline in sales due to the small amount of inventory on hand for condominium sales, as well as its expectation for lower sales in the renewable energy business because power sales are expected to decrease due to the sale of power generation facilities related to the Narita Kanzaki Project. The Company expects the decline in sales to result in a drop in operating profit, but is still forecasting a full-year operating profit of ¥177mn due to improvement in the profit margin, the review of the earnings structure, progress on efforts to reduce SG&A expenses, and other efforts. In addition, based on the Company recording an extraordinary gain of ¥645mn on the sale of the Narita Kanzaki Project, it is forecasting a significant increase in net profit attributable to owners of the parent.

Outlook

As before, there are uncertain elements, such as the impacts of the COVID-19 pandemic, the climate in the renewable energy business, and future conditions in the investment business (such as stock price trends), but even so, the Company is forecasting operating profit of ¥177mn for the full fiscal year. This forecast includes the expected recording of a significant loss in 2H (¥197mn). In 2H, sales are forecast to decline as a result of the decrease in sales in the real estate business and lower sales in the renewable energy business following the sale of the Narita Kanzaki Project. However, while it is fully possible to consider that profits will decline compared to 1H, it is highly unlikely they will fall to a loss of ¥197mn. Therefore, the full-year forecasts appear fairly cautious and could be upwardly revised, depending on COVID-19 conditions, the climate, and stock market trends in the future.

FY3/22 results outlook

	(¥mn)				
	FY3/21 Result	FY3/22		Change	
		Forecast	Composition ratio	Amount	Ratio
Sales	10,510	7,701	100.0%	-2,809	-26.7%
Operating profit/loss	-395	177	2.3%	572	-
Ordinary profit/loss	-586	231	3.0%	817	-
Net profit attributable to owners of the parent	55	821	10.7%	765	-

Note: FY3/22 forecasts are those announced in November 2021
 Source: Prepared by FISCO from the Company's financial results

2. Progress made for new businesses

As the next renewable energy business, the Company has announced that, following on from the solar power generation business in Japan, it has entered into the biomass fuel (wood pellets) manufacturing business. Together with the RFP (Russia Forest Products) Group of Russia, it has launched a joint venture (RFP Wood Pellets (hereafter, RFP WP), the Company's equity-method subsidiary), a wood pellet manufacturing plant using sawdust and other materials discharged from the timber mill adjacent to the mill has been constructed and export of wood pellets as fuel to biomass power generation plants in Japan has begun.

After the completion of the plant's primary facilities in February 2020, the project's trial runs and commissioning and a quality inspection by a third-party organization encountered delays as a consequence of the proliferation of the COVID-19 pandemic within Russia, restrictions imposed on entry from other countries, and other such unforeseen developments. In September 2020, however, engineers were able to travel from Europe to Russia, which enabled the plant to embark on production of prototypes, after which it achieved outstanding assessment results upon undergoing quality inspection performed by the third-party organization JSC Bureau Veritas Rus. To help improve cash flow prior to commencement of official sales, RFP WP concluded an initial spot sales contract after having drawn on the inspection results in efforts to seek a spot sales buyer who would be willing to make small-lot purchases. As it continues to seek spot sales buyers going forward, RFP WP will also ensure the very best quality control with respect to manufacturing processes until the commencement of official sales made under its long-term contract with ENGIE EM starting from April 2021. Meanwhile, RFP WP is committed to maintaining its focus on the renewable energy business going forward in part by expanding the plant to align with demand, and accordingly projects sales of 60,000 tons in FY3/22 and aims to achieve production and sales amounting to 135,000 tons in the future.

Outlook

In the biomass power generation-related business, production of wood pellets at the Russian plant operated stably in 1H FY3/22 and spot sales, such as to companies in Russia and South Korea, trended strongly, including shipments for a long-term supply contract that began from April 2021. In keeping with its policy for proposing an expansion in the plant's production volume, the Company will discuss the matter with its Russian partner while carefully observing the conditions for a resurgence of COVID-19 within Russia. Moreover, in the 6th Energy Basic Plan announced on October 22 of the same year, renewable energy is specified to be a main source of energy and its market is forecast to grow in the future, so the Mirainovate Group also intends to continue to expand this business. This project affects the Company's results as equity-method investment income/loss (non-operating profit/loss). It marked investment losses (non-operating expenses) up to FY3/21, but recorded investment income (non-operating profit) of ¥7mn for the first time in 1H FY3/22. Going forward, investment income is expected to increase alongside the rise in the sales volume.

Shareholder return policy

Plans a dividend of ¥3 in FY3/22

The Company's basic policy for returning profits to shareholders is to stably pay a dividend after comprehensively considering factors including results and financial conditions. Although an annual dividend of ¥4* was paid in FY3/18, it did not pay a dividend in FY3/19 and paid an annual dividend of ¥1* in FY3/20. Once again, a dividend was not paid in FY3/21, but the Company plans to pay an annual dividend of ¥3* in FY3/22.

* On October 1, 2021, the Company conducted a 10-for-1 share merger. Therefore, the values up to and including FY3/21 are from before the share merger and from FY3/22 are from after the share merger.



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